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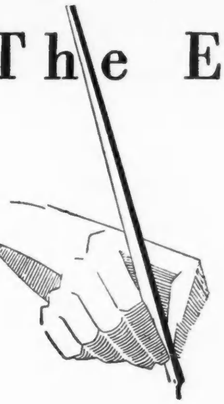
With The Editors



Report Unfilled Orders

THE few companies which have found it possible to issue monthly reports of their sales or shipments to the public are doing all of us a tremendous service. They are in effect bringing nearer the day when, with all cards on the table, business and the public can better understand each other. Too often, though an enterprise is publicly and widely owned, some of the current facts about its business are considered the private property of the officers and directors. Entirely aside from the question of whether or not any undesirable use is made of this information by the insiders, the fact is that in many cases stockholders have a legitimate right to it.

Only a small minority of concerns could follow the example of Caterpillar Tractor and release not only monthly sales but monthly net earnings as well. Where this is feasible it has the decided advantage of permitting a close watch on profit margins, and in these are summed up all the doubtful points such as labor costs, taxes, raw material prices and selling prices. The stockholder, in other words, has practically the same opportunity as a director of detecting the unfavorable trend in company affairs. The market action of the stock can be based upon facts which gradually come into sight, rather than suddenly discovered slants in earnings.

The problem differs considerably as between the extremely volatile and the stable business, since the former is apt to mislead with its reports of zero orders one month and an enormous bulge the next. Yet those concerned quickly learn to discount the fluctuations, particularly if, as in the case of Baldwin Locomotive, not only orders received during the month but shipments and the backlog of unfilled orders at the month-end are given. Woolworth, on the other hand, can report its sales without fear of wide swings subject to misinterpretation. Monthly sales figures from this type of enterprise bring out long-term trends, smooth the stock's market action, create investor-confidence. Where only one set of figures is to be released monthly, the stable industries can safely report sales, while the companies whose orders swing widely from week to week might better make public the amount of orders on hand as less likely to confuse the situation.

There are reasons, perfectly valid for the present, why certain types of business cannot do this. The burden of proof, however, is on the individual company, and any stockholder is entitled to know *why* he has to wait for quarterly, semi-annual, or even annual figures on the state of his own business.

*** * * IN THE NEXT ISSUE * * ***

ANNUAL DIVIDEND FORECAST

Part III—Railroads, Aviation, Building, Chain and Department Stores and Miscellaneous Specialties

Part II is in this issue

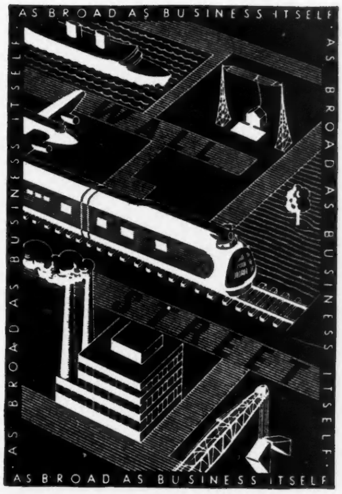
Part I in the issue of January 28—Steels, Oils, Public Utilities, Metals, Machinery and Equipments

Gendreau

Maintaining the thousands of miles of new highways is providing a constantly widening market for the equipment makers.

THE MAGAZINE OF WALL STREET

E. Kenneth Burger, *Managing Editor* : C. G. Wyckoff, *Publisher* : Laurence Stern, *Associate Editor*



The Trend of Events

DEFLATION ALSO DANGEROUS . . . With excess reserves of member banks at a peak of $3,600,000,000, the Federal Reserve Board in its annual report to Congress warns that "the present and prospective volume of excess reserves may, at some time, became the basis of aninjurious credit expansion."

Well, this world is filled with dangerous *possibilities* but the only common sense method in credit management, as in other human affairs, is to limit planning to the *probabilities*. We don't know the motive behind the Reserve Board's warning. Perhaps it intends to ask Congress for greater control powers which it might or might not exercise with greater wisdom than it did in slapping on the brakes in 1936. But we do know that to warn of private credit inflation in the existing setting is so premature as to be ridiculous.

What are today's realities? Production, national income, commodity prices, inventories, payrolls and employment are all seriously *deflated*. For the latest week reported total loans of member banks are only $8,281,000,000, which is $639,000,000 less than when the New Deal came into power in March, six years ago, at the bottom of our worst depression. Investments of member banks in securities other than those of the United States Government total $3,161,000,000, and this is less than in March, 1933. In short, there has been no net expansion of private credit since Mr. Roosevelt became President. In fact there has been to date a net deflation of private credit. The only net increase in member bank credit since March, 1933, has been increase of $5,201,000,000 in investments in Government securities. The only possible control of this kind of credit expansion lies with our political spenders.

The Reserve Board should be worried about the probability of not getting enough private credit expansion over the next few years rather than the very faint possibility of getting too much. If it wishes to risk touching off another security market deflation by scaring banks out of their bond investments a good way to do it is to keep tinkering with the machinery. As we saw in 1937, it is far easier to tear down than to build up.

UTILITY SKIES CLEARING . . . Within the space of a single week have come two major developments in the five-year-old struggle between the Federal government and the public utilities. On January 30, the Supreme Court's decision on T V A case was handed down and on February 4 came the announcement of agreement on a price between the T V A and Commonwealth and Southern for the sale of all of the latter's Tennessee properties.

Although it is possible that the constitutionality of the Government's power program can be further tested in the courts, as a practical matter the T V A decision probably marks the end of the battle on the legal front. Insofar as the Commonwealth (*Please turn to page 526*)

Business, Financial *and* Investment Counselors · 1907 — *"Over Thirty-One Years of Service"* — 1939

As I See It!

BY CHARLES BENEDICT

AT HOME AND ABROAD

If the various members of the Senate had deliberately set out to injure France, they could not have done so more effectively than by attacking the President and making an acrimonious issue out of the sale of the 650 airplanes to the French.

For with England's position regarding France known to both Germany and Italy, and both Hitler and Chamberlain working for concessions for Il Duce from France, the suggestion of aid from the United States would have been a trump card for Daladier. Italy's venomous response is sufficient proof of the extent of her fears of such a contingency. Not only would it mean a less amenable France—but a Hitler less willing at the moment to participate on the side of Italy should active war result.

I do not believe that President Roosevelt ever intended to make more than a gesture of assistance to outbluff the bluffers. All the various governments have been, and are today, buying airplanes and war materials in the United States — and certainly the sale of planes to France is in itself nothing to create such a disturbance about. If the airplane carrying the French observer had not crashed, the newspapers would shortly have recorded the sale of airplanes to France as a normal transaction, just as the English order was recently announced. Therefore, the fight in the Senate is purely political.

Unfortunately, this injudicious publicity will create a fear among thoughtful citizens everywhere, that there are those in important places to whom the welfare of the country seems secondary to the venting of their hatred and political animosity against President Roosevelt.

The President summons members of the Senate to a "confidential" discussion of most delicate angles of the foreign situation, and the next day the press contains a scarehead version purporting to be the substance of this talk—and there was no press release.

The handling of this matter has helped no one—including the United States. And yet, we are facing a critical situation that demands the greatest cooperation between all parties and a minimum of friction.

We are all aware how the weakness of France and England has strengthened Germany, Italy and Japan who have already acquired a dominant cultural and economic position in Latin America with all that danger implies.

The quicker we get to work to mend our fences, the better off we will be. The first step is UNITY—for we must stand together. The next is REARMAMENT—so that our voice will be respected. The third is DIPLOMATIC PREPAREDNESS — because it is necessary for us to have the best and most capable diplomatic and commercial staffs and representation possible in every country in South America.

We must meet totalitarian competition successfully through reciprocal trade (barter arrangements, if you will)—as there are

many ways of adjustment in goods even with the Argentine. By greater financing of orders through the Import-Export Bank which was formed for that purpose years ago. By the sale of gold to these countries (which has already been under discussion), and through the many other known ways to be intensively developed.

If we don't do these things we will surround ourselves with enemies eager to overcome us; and when I say overcome us, I mean by the *new type of warfare—economic and political penetration*—the same methods that were used on the new vassal States abroad.

As for Europe itself, our government seems well aware of the futility of active armed participation on our part. It would not save the situation, which in fact is more likely to be settled in the "Munich way" rather than by actual conflict on the battlefield.

France

France first weakened by her loss of friends in Middle Europe, later by Munich, and now by Franco's victory in Spain, is caught in the pincers of the Fascist states. Just now she fears the political disadvantage resulting from the influx of the Loyalists. Apparently this situation has worked out according to plan.

Last spring when I was in Italy there was much talk about making France the next battlefield. If Franco had won last year it was expected that about 150,000 Loyalists would escape into a France economically unprepared to receive them. With Nazi-Fascist propaganda working to create internal disturbance plus a weakened French government, it was suggested that Italy and Germany could then invade France on their usual pretense of preventing communists from getting the upper hand, and that France was unable to preserve order. Savoy particularly was one of the provinces that was to fall to Italy. But, in the intervening year came Berchtesgaden, Munich and the Rightist Daladier government. Possibly Mussolini's demands for French territory in strategic positions in Africa and the Mediterranean was part of another plan to accomplish the same thing.

In the meantime, the British opposition to meeting Nazi pretensions and demands, the fraternizing between Chamberlain and Mussolini, the belligerent attitude of the United States have all combined to change the picture—to which Hitler's speech gave recognition. His address was, on the whole, the typical Hitler emotional appeal made mainly for home consumption to justify any demands he might make on the German people in any new adventure for raw materials and markets, and a left-handed attack on our government because of our Rearmament Program and anti-Nazi campaign in South America. (He did not remember to say that the reparations which Germany paid were financed by American dollars which, in spite of our friendship to the pre-Nazi Germany, we have not been able to collect.)

Germany

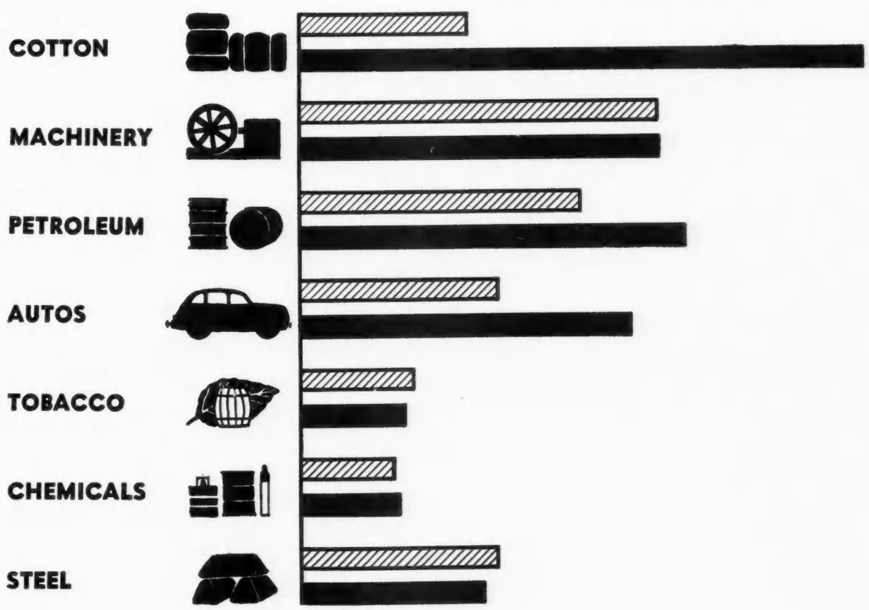
Hitler is more active than ever in the East—his closest source of foodstuffs and raw materials—as his speech clearly indicated. I believe there is no change in his Ukrainian plans. It is only that there have been delays of one kind and another. For example, the railroad through Hungary to the Ukraine is only just being completed. That he has accomplished the subjugation of Hungary is indicated by the Russians who, in withdrawing their Embassy, referred to Hungary as a vassal state.

So great is German necessity for raw materials that she is not in a position to postpone activity in her own behalf to assist Mussolini in achieving his goal in the Mediterranean, if a war should result between France and Italy. Yet she cannot ignore him. The victory in Spain makes it necessary for Hitler to either take definite action or jeopardize the status of the Rome-Berlin axis. In his speech before the Reichstag he took great pains to compliment Mussolini most highly. At the same time he didn't forget to say a kind word for Chamberlain and Daladier—indicating that he is working through diplomatic channels to accomplish this purpose.

Hitler, the "friend" of France, as a result of Munich, is urging concessions. (*Please turn to page 527*)

OUR LEADING EXPORTS

(In millions of dollars—shaded line 1938. Solid line 1926-30 av.)



New Market Phase Ahead

Short-swing trend is doubtful. Barring war, market will remain for some weeks longer in the trading range of the past several months, which means stocks are a buy on reactions but not on rallies.

BY A. T. MILLER

Fast decline followed by slow recovery was the story of the stock market during the past fortnight, resulting in no significant net change in the position. Beginning with one of the widest "gap openings" on the down side in a long time, due chiefly to jittery selling from Amsterdam and forced selling from London, the first four sessions of the week starting January 23 produced a drop of about 10 points in the industrial average. Some 83 per cent of that decline was cancelled in the next eight sessions through Saturday, February 4, as war fears quieted.

At this writing, on Monday, news of the T V A-Commonwealth & Southern settlement has brought a further upward thrust, putting the utility average at a new recovery high and the industrial and rail averages at levels which represent cancellation of all but a fraction of the "gap" decline of January 23.

Both because short-swing rally has now run into the ninth trading session and because of the closing of a "gap" regarded as technically significant by chart-minded traders, a good many people are on the lookout for more reaction. Quite possibly it may be in the offing. But we are of the opinion that it will take another serious fright from Europe to break the lows of January, that the war factor has been exaggerated and that for intermediate-term trading and longer range investment purposes the market remains in a buying, rather than a selling, range.

Indeed, reaction from the present level looks almost suspiciously logical. Having begun the year with a notable double-cross of prevailing speculative opinion—in the form of January reaction of unprecedented scope—we would not put out of mind possibility of double-cross in the opposite direction. February betterment of present levels by 8 or 10 points in the industrial average apparently would not make sense to most traders, so let us put it down at least as a possibility, especially if nearby recession should prove minor enough to confound the bears.

Provided the January lows hold firm, neither minor reaction in the near future nor recovery of a greater percentage of the total decline from the December highs would have any significance in relation to the major trend. It is to be doubted that the market is yet ready to emerge, either on the up side or the down side, from the trading range of approximately 20 points in the industrial index which has been maintained, with the exception of the brief election rally, for nearly four months.

On this reasoning we would favor intermediate term trading purchases and longer range investment purchases on any reaction from present levels, but would defer such purchases if the recent short-swing recovery should be materially extended. The market pattern that we have in mind is resumption of the major recovery movement sometime in the spring season, geared to renewed business recovery and we think that only a European crisis worse than any yet seen could change this picture. In the interval at least one more reasonably good buying opportunity probably will be presented, and we see no reason to reach for stocks in periods of more or less enthusiastic rally.

Leaving detailed experting on international affairs to others, suffice it to say here that we are convinced that the intention of Germany and Italy to avoid fighting an offensive war against Britain and France is considerably stronger than their obvious intention to continue seeking concessions by threat of war. Since neither side desires war, or can risk war with major powers, there won't be war. Whether it is avoided by discreet diplomatic retreat of the Fascist dictators or by small additional concessions from the French and British should not be of more than transient stock market significance, as long as it *is* avoided.

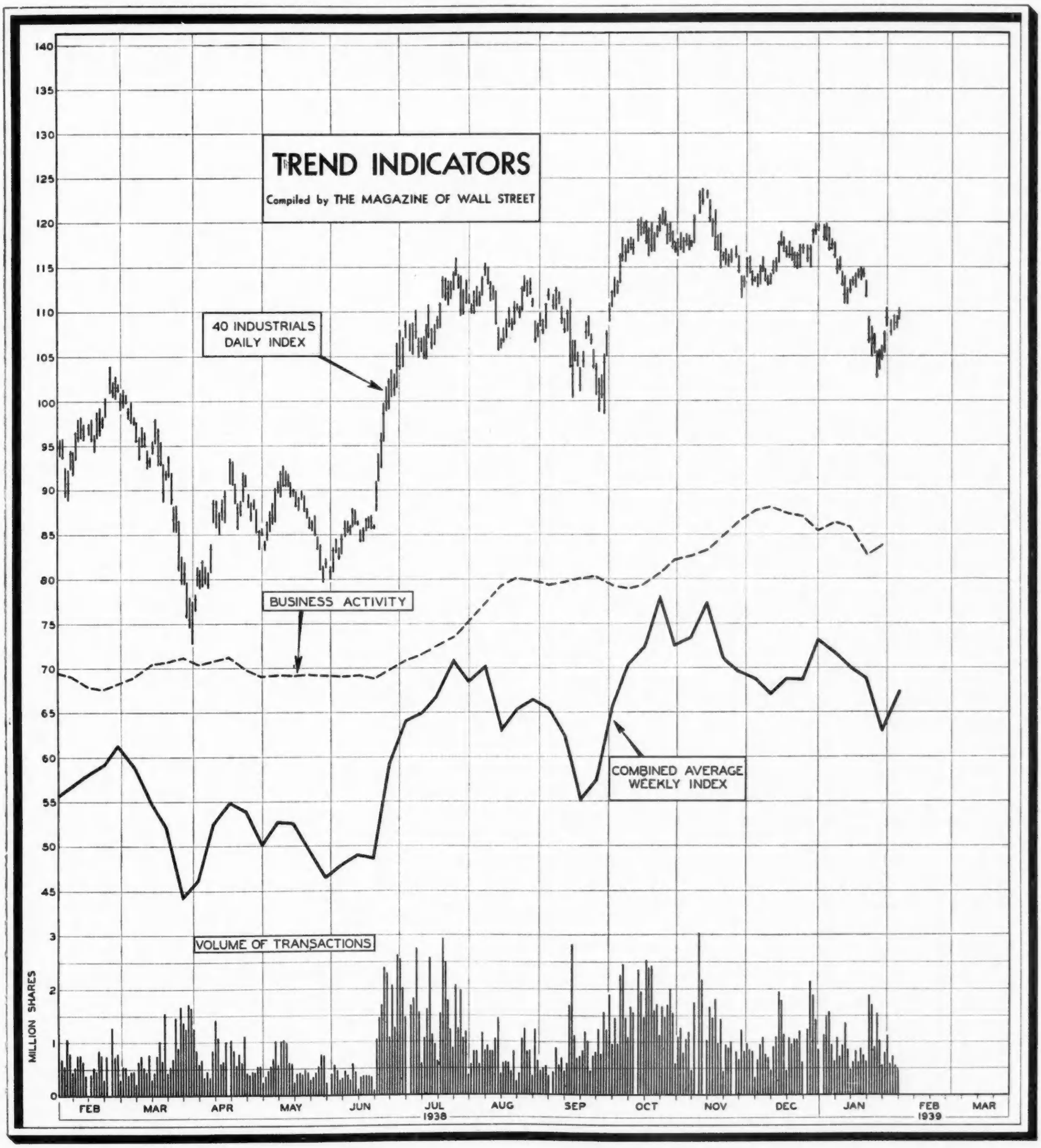
At home, our per capita business index stands at 83.9 per cent of the 1923-1925 level, down only a trifle more than 4 points from the December high. The present level is about 7 points above the average of the first quarter of 1936 and is also above the average of the first half of 1936. Yet it is worth noting that our broad weekly stock market index as of February 4 stood at 67.5 as compared with 87.3 at the same time in 1936, a differ-

ence of nearly 20 points. This discrepancy cannot be blamed entirely on Europe. Part of it reflects business and investment skepticism of the longer recovery prospect. The fast collapse of 1937 is remembered. That collapse terminated a Government-financed, pump-priming recovery. This is another pump-priming recovery. Therefore, look out. Such is the reasoning.

We readily concede that we are not yet in sight of a privately-financed recovery cycle. On the other hand the political factors are working toward gradual revival of investment confidence, and meanwhile many observers are underestimating the business stimulation—both in scope and duration—that can be expected of the present Federal spending program. The actual Government contribution to national purchasing power is now around $250,000,000 a month and will assuredly rise above $350,000,000 a month over the near future. Thus pump-priming expenditures during the first half of this year will approximate those of the second half of 1936, in which period the Veterans' bonus was distributed. Moreover, since Congress is giving only lip service to economy, Federal deficit spending is likely to continue as a source of economic stimulation at least well into 1940.

Meanwhile, new orders in consumption goods industries and in some durable goods industries indicate a better business prospect than is suggested by the present level of the composite business index.

—Monday, February 6, 1939.



We have tried everything except encouragement of private initiative and stimulation of private investment.

How to Get an 80-Billion U. S. Income

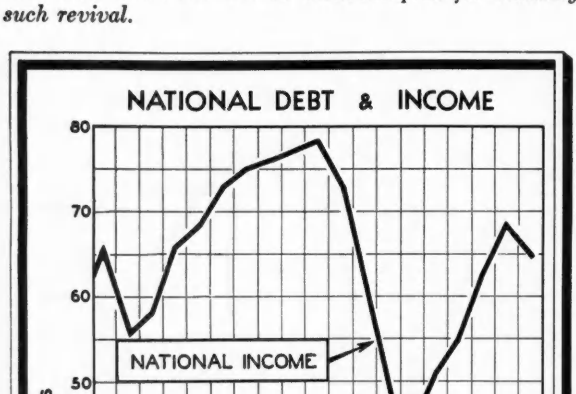
BY JOHN D. C. WELDON

There will be eventual run-away inflation and breakdown of Government credit unless the Federal budget is balanced.

The budget can not be balanced unless business activity increases to or above the 1929 level.

Business activity can not increase to the 1929 level unless there is a great revival of private investment.

The Government hopes there will be a revival of private investment but has no coherent plan for inducing such revival.



These are the realities behind the somewhat unrealistic debate now going on in this country on the subject of Government deficit spending in relation to economic recovery. It behooves us to look them in the face and find a way out of the dilemma. The time available is not unlimited. If the American people, acting through their elected representatives, have not the genius to solve this most vital of all national problems you can write it down that our capitalist system is on the road to its doom.

Well, let's get down to practical facts, starting with brief examination of the argument for Government deficit spending advanced by the President and by the Governor of the Federal Reserve Board, and of the argument for Government retrenchment advanced by Senator Byrd, of Virginia—after which we shall see that neither of these opposing schools of national thought really gets to the heart of the problem.

In one breath the President tells us that deficit spending is a planned substitute for absent private investment, a controlled instrumentality for putting idle money and idle men to work. Like Governor Eccles, he speaks of it as an optional policy. But in the next breath Mr. Roosevelt challenges his critics to find any substantial economies and points out that they can not be had unless Congress will drastically reduce national defense, or farm benefits, or veterans' payments, or social security, or unemployment relief, or flood control, public works, etc.

In short, while the deficit spending program may have been optional when it started late in 1933, Mr. Roosevelt tacitly admits the fact that it is now no longer optional and that he does not dare risk the political consequences of attempting to curtail it. Neither will Congress risk such consequences in more than trivial degree. Lavish spending of borrowed money—easily had by inflation of bank credit—has created entrenched political interests which are not only self-perpetuating but self-aggrandizing. It is not only politically impossible to reduce the $9,000,000,000 budget; with incessant demand for extension of social services, we shall have the fight of our lives in attempting to keep it from rising considerably above $9,000,000,000.

Now if we start with the true premise that New Deal

deficit spending is no longer optional in any sense, then it becomes apparent that in every justifying argument Mr. Roosevelt and Mr. Eccles — whether consciously or not—are merely resorting to wishful - thinking rationalization in the effort to make unavoidable deficits palatable to the voting public.

They tell us that this spending is really "investment"; that it has been effective in increasing the national income; that it will be of continuing effectiveness in further raising the national income; that debt-expansion is essential to business recovery in a capitalist economy; and that our debt position is not dangerous because the total of public and private debt is now no greater than in 1929.

Only the last-cited argument need be looked at, for it demolishes all the others. If debt-expansion is essential to capitalist prosperity and if our present total debt equals that of 1929, why have we not got the prosperity of 1929? The answer, obviously, is that Government deficit spending is not, and can not be, nearly as productive of enduring business stimulation as private investment. If Mr. Roosevelt has made a discovery hitherto unknown to the world, namely that a Federal deficit of three or four billions a year is a public blessing—why not give us more of a good thing by doubling or tripling the deficit?

Turning to the other side in the debate, what of practical value are we offered by the political advocates of Government retrenchment, led by Senator Byrd? The fiscal principles espoused by the Senator are dear to the hearts of all conservatives but they fall far short of offering a practical solution of our problem. Take a close look.

In the first place, Senator Byrd's premise—like that of Eccles—is that the present Government has an option to spend $9,000,000,000 a year or to spend considerably less. As we have noted heretofore, it is not politically possible for either the Administration or the Congress to exercise any such option in really important degree. We see this point proven in the recent terrific fight over a matter of $150,000,000 of relief funds, an item amounting to about 1.6 per cent of the total budget!

In the second place, even if the budget could be balanced by drastic economies, it is open to grave doubt whether this would automatically induce prompt revival of private investment in needed degree. It is not that simple. Since 1929, nearly ten years, a variety of restraints and inhibitions—some political, some economic —have fastened themselves on capital and on the venture spirit formerly normal to private enterprise. New Deal deficit spending is only one of those restraints.

In the third place, neither Senator Byrd, nor any group of his colleagues in Congress nor the Administration has any concrete program aimed at *positive inducement* of private investment.

Right here we come to the crux of the problem. Private capital is not employed in normal degree. Because of that fact we have idle men, idle machines, depressed production. Obviously, in the very nature of a free profit system, capital can not be coerced into employment. It will go into productive investment only on terms satisfactory to its innumerable owners. At the present time we have scant reason to assume that President Roosevelt has either the ability or the inclination to bring such terms into being. As for Congress, a majority of the present membership are at least mildly sympathetic with capital and hope business will recover —but have only the foggiest notions of what might be the matter and what should be done about it. Thus we are seeing an elaborate investigation of all the things that may be wrong with our capitalist system in order to devise more Federal regulation—but not by any chance a searching inquiry into the reasons why private capital is not seeking productive employment and into the possible revisions of Government policies which might encourage private investment!

It is significant that the President habitually speaks of our economic goal in terms of dollar signs—national income, money income of consumers. This is really an $80,000,000,000 country or even a $90,000,000,000 coun-

try, says Mr. Roosevelt, and only temporarily a $60,000,000,000 country. When we get back to a national income of $80,000,000,000 a year, which we had in 1929, our problems will be solved and the Federal budget will automatically be balanced without increase in tax rates.

There would be less confusion of mind at Washington if two facts were more fully comprehended:—First, the present deficiency in national income is merely the dollar measurement of deficiency in the physical production of goods and services. Second, the deficiency in total production is due primarily to deficiency *in the particular kind of production which is dependent on private long-term investment, namely, producer goods and private residential construction.*

Inflation Is Not the Answer

The first point requires no elaboration. We could increase the national money income by inflation, but increased wealth and purchasing power can be had only out of increase in physical production.

The second point merits further attention. Contrary to New Deal theory, the primary inadequacy in the recovery cycle which terminated in 1937 was not the inadequacy of purchasing power in the hands of gainfully occupied persons. This is easily proven by Government statistics. For instance, the per capita income of all wage and salary workers in 1929 averaged $1,451, according to Department of Commerce estimates, while for 1937 the comparable average was $1,316—but as the cost of living in 1937 was only 84.7 per cent of what it was in 1929 the purchasing power of per capita employee income in 1937 was equivalent to $1,513, or more than 104 per cent of employee purchasing power in 1929.

So examined, it becomes obvious that the weakness of our position is reflected not in the status of gainfully occupied persons, but in the status of the 10,000,000 or so persons who can not find private jobs. Up to 1929, despite recurrent depressions, there was no long-term unemployment problem. The increasing labor supply was absorbed because our total economy was expanding at a rate at least equal to population growth.

Now in a capitalist system the central ingredient of an expanding economy is private long-term investment —investment in the tools and facilities of production, transportation, utilities, including structures; and investment in residential dwellings.

Right here we come to the very heart of the problem of restoring a national income equal to that of 1929, of balancing the Federal budget and of putting the unemployed to work. It is a problem difficult to measure in exact figures, but studies of the National Bureau of Economic Research indicate that as compared with the annual average of the decade prior to 1929 the present output of producer goods and private residential building is deficient by at least $9,000,000,000 to $10,000,000,000 a year. From other sources we have competent estimates that residential building alone averaged $4,440,000,000 a year over the years 1924-1927—a period in which total business activity was less than 3 per cent above computed normal—or nearly four times as much as the highest annual total of such building attained at any time to date under the New Deal. In short, the Government has been trying to do the impossible trick of offsetting a deficiency of $9,000,000,000 to $10,000,000,000 a year in private long-term investment by spending $3,000,000,000 or so a year of borrowed money which goes largely into uses which provide only temporary stimulation of consumption goods.

Defenders of the deficit spending program will answer that our economy is maturing, that the rate of population growth is slackening, that the frontiers are closed—hence the need for expansion of capital facilities is materially less than formerly. This sounds plausible, but will not stand examination. Regardless of need or lack of need for increased productive *capacity,* the demonstrable need for and desirability of *improved* productive facilities is without limit, is the only effective approach to low-cost goods and an abundance economy and can only be satisfied by increased investment. Moreover, in housing there is an obvious vast need for both *improvement* and *expansion* of the existing supply.

To some minds our own past experience means nothing. During the 'Twenties we had a tremendous increase in the national income, while the Government debt was being steadily and largely reduced. But that was in the horse-and-buggy days of a dead and gone era. Conditions have now changed and everything is more complex.

Yet it is not so easy to laugh off the more recent lessons suggested by the experience of certain other countries. Take England, for example. A conspicuous case of "economic maturity"—but in recent years there has been no such stagnation of private long-term investment there as we have seen here. On a cumulative basis the British budget was balanced over the period of 1932-1937. From 1932 low to 1937 the British national income increased by slightly more than 101 per cent, while from the depression low in this country through 1937 our national income increased by just under 50 per cent, while our cumulative Federal deficit approached $20,000,000,000.

France Shows the Way

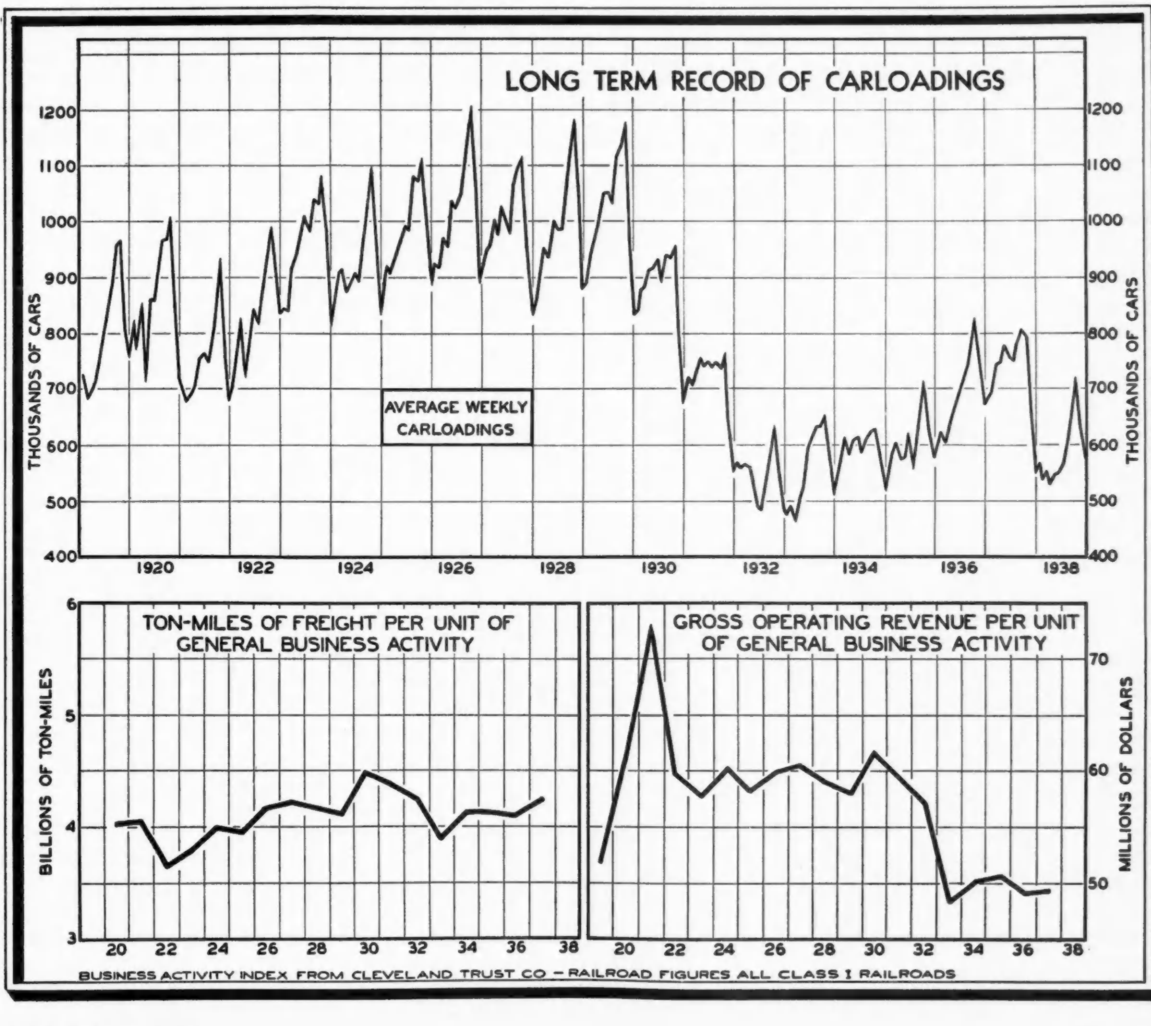
And we might profitably study the economic policy of the present French Government. Long in a bad way, the French economy went from bad to worse when the Blum regime adopted its own version of our New Deal, including public works spending, shorter hours and higher pay for labor, etc. Reversing the Blum course, the Daladier-Reynaud government has returned to a policy of which the keystone is economic liberalism with maximum inducement for private initiative and increased production. Until stymied by the present war scare the French retreat from state Socialism and government-manage-everything had in a two-month period been strikingly effective in inducing repatriation of capital, revived investment, increased production and recovery in security values.

A report on the weaknesses of the French economy and needed remedies drawn up by M. Reynaud is one of the most brilliant state papers of our time, is well worth reading, but is too lengthy for review here. Its basic philosophy, however, is summed up in the following brief paragraph: (*Please turn to page 526*)

The Realities Facing the Rails

BY PIERCE H. FULTON

THE problem of the railroads is more a problem of general economic recovery than is commonly realized. The long term chart of car loadings shown below is not as bearish as it looks. While average weekly loadings in 1937 were 23.8 per cent under the period 1923-1925, business activity was 18.2 per cent lower. Since capacity of cars and average distance of freight haul change over a period of years, the most accurate measure of freight traffic is ton-miles. The second chart below shows ton-miles in ratio to business activity, and reflects no such diversion of available freight as is generally assumed. For instance, ton-miles in 1937 were 4.26 billion for every 1 point of the business index, against 3.90 billions in 1923-25. But, as shown by the third chart, the major impact of motor competition has been felt on gross revenues. Comparing 1937 with 1923, passenger revenues were down by about $696,000,000 and not much of this can be recovered. On similar comparison, freight revenues was down by $1,248,000,000. More significant, freight revenue in 1937 amounted to $39,600,000 for every 1 point of the business index, against $43,200,000 in the 1923-1925 period, a drop of only 8.3 per cent.



Happening in Washington

BY E. K. T.

Congressional independence of White House domination, long predicted, proved itself in reduction of relief appropriation. The issue wasn't the money but the principle of the thing—whether or not Roosevelt could control on the first test of strength. Now that the breaking of White House strings has been definitely established the margin of the "independence bloc" will be increased and Congress will keep the bit in its teeth. Importance to business is that there will be no more acceptance of administration ideas on faith—legislation will be thoroughly digested before passage.

Roosevelt's reaction to loss of Congress control will be expressed in subtle ways. He will not expose himself to charges of dictatorial ambitions by openly railing. Instead he will try to build up back-home sentiment and pressure groups for his program, will point to Congressional delays as proving the need for strong executive direction, will quietly reward the faithful Congressmen and smilingly snub the revolters. He does not read into the last election the mandate apparently seen by a majority of Congress; he is adjusting to the situation but not accepting it; he believes the New Deal so far is only the start of a long program of social reform and that the public will again demand that it be pressed.

Conciliation of business is earnestly sought by many Administration officials and is tolerated by Roosevelt as a means to an end—more profits to tax, fewer unemployed to handle, less criticism as the crucial 1940 election approaches. Roosevelt is willing to let his aides go to considerable lengths to woo business confidence provided he does not lose face, but every so often he will take some action to keep up the spirits of the left-wingers.

WASHINGTON SEES

- Congress eager to show it is boss.
- Roosevelt not retracting his objectives.
- Outlook not bright for economy.
- Farm policies undergoing change.
- Congress suspicious on foreign policy.
- Rail law joker anticipated.
- Tax-exempt bond elimination not expected.

Amlie's appointment to I C C may be interpreted various ways: a dig at the conservativeness and independence of the I C C; a slap at the group of "non-Democrats" eligible for appointment; a bid for third party support; a gesture to extreme liberals. But the controlling reason was that Amlie alone voted against recommitting the reorganization bill last year when the other Wisconsin Progressives bolted Roosevelt and helped kill the bill. Thus Roosevelt shows he has a long memory and his support goes to those who stick by him in times of need. Appointing a single government-ownership advocate on a commission of eleven will not hurt business, but what the President does not understand or deliberately flouts is that investments can't be coaxed out of hiding if he continues his determination to fill important policy posts with men not sympathetic to problems of capital.

Economy outlook in Congress is not bright despite cut in relief funds. Economy was not the issue there. More money will be given relief if actually needed, and other expenditures will remain at a high level. Regular appropriation bills will be whittled down a little, but not enough to make a real difference, and defense and other augmented programs will be authorized entailing more expenditures later. Congress does not accept the Roosevelt-Eccles theory of "investment spending" to bring recovery, but doesn't know how to cut and feels a drastic curtailment now would injure business. But there is increasing sentiment for starting economies soon even if in a small way.

Tax-exempt bond elimination will not be voted by Congress. There is an even chance that Federal income taxes will be applied to state and city employees without a Constitutional amendment and let the question go to the Supreme Court, but on the more important question of taxing bonds of political sub-divisions there is too much well-placed opposition from state governments and

others. And Congress will not end issuance of Federal tax-exempts without state reciprocity.

Processing taxes to finance the farm program will be an issue later in the session, but chances are slightly against enactment. Wallace wants them and many economists feel they are the fairest plan, but Treasury and apparently White House oppose, and political consideration are against enactment.

Defense plans are being minutely scrutinized by Congress which wants adequate defense but is afraid the Administration is planning for offense. There is much suspicion that Roosevelt is secretly engaged in too aggressive a foreign policy, that he has understandings with England and France, and this suspicion is not quieted by Roosevelt's insistence that foreign policy determination is his job. Explanations of French airplane deal still leave doubts; belief is Ambassador Bullitt arranged it, but Army officials balked so Roosevelt got Treasury to act as sort of purchasing agent for France. Worry over Guam fortification plans and effects also shows uneasiness of Congress over foreign policy. These incidents demonstrate that much of the country, particularly inland sections, do not follow Roosevelt's suspected internationalism.

Rail legislation now the subject of House hearings is not the Administration plan, but is suspected of being a dummy to draw fire and divide opposition. Non-rail transportation agencies are combining to fight what they anticipate will be an Administration bill slipped in later and which in the guise of aiding the railroads will give the Administration complete control over not only rails but all other forms of transportation, perhaps even including private carriers—your own truck or passenger car.

Phosphate report was much milder than expected when investigation started; failed to bear out Roosevelt's alarms over shortage; found no reason for curbing exports; does not encourage idea of further extensive government competition with the fertilizer industry. This in spite of fact that Congressional committee was weighted somewhat pro-government ownership. Procedure shows value of investigating before legislating. In early New Deal days Roosevelt probably would have launched big government fertilizer project on basis of the one-sided picture presented him by enthusiasts.

Natural gas regulation precedents are about to be set by Federal Power Commission in the current fight to supply gas to the northern Minnesota area. F P C must decide whether it has jurisdiction over an area not already served; if so, what market areas should be allocated to certain gas fields and companies; and whether it can regulate competition between competing fuels. Coal interests are vigorously fighting extension of gas lines and court action is in prospect whichever way the commission rules.

Mexican oil expropriations will be forced to a show-down by Congress if State Department does not get results soon. Resolutions already introduced demanding in-

Wide World Photo

Vice-President Garner's break with Roosevelt is deep and real, though both try to conceal it. All Washington knows Garner is leading the non-New Deal Democrats in both House and Senate, but he refuses to let this be too obvious and occasionally backs out of a situation when his activities are becoming too conspicuous.

vestigation of U. S.-Mexican relations and Nazi influence in Mexico reflect sentiment of important segments of Congress, but will not be pressed at present. But termination of foreign silver purchases, ostensibly for domestic reasons, would hit Mexico directly and forcibly and would provide vehicle for bringing economic pressure without diplomatic affront.

Life Insurance is to come under S E C scrutiny in a more penetrating way than at any time since the Hughes Investigation 34 years ago. Lengthy questionnaire to 26 of the biggest companies seeks heretofore undisclosed data on investments in securities or real estate since 1931. Results are destined for the monopoly commission.

Oil legislation plans are being discussed furtively in executive circles, but there is no decision on advancing them soon. State control and industry-self-regulation are being watched closely and disorganization in production would bring Federal control scheme to the fore. The question may arise anyway later on in the session on the matter of renewing Federal sanctions to state regulation.

Health program proposed by Roosevelt would cost many millions, require imposition of heavy state payroll or other taxes, and subject average individuals to state-controlled medical systems and disability insurance. Congress is showing no enthusiasm and Roosevelt is not pressing it at present, and no legislation may be expected this session.

The Investment Clinic

The Highest Yield Compatible with Safety

Bonds Preferreds Common Stocks

BY J. S. WILLIAMS

A FAIR and dependable income consistent with safety. This in the final analysis is the primary objective of most investors. Under circumstances which would permit and justify the assumption of greater risks, an investor might employ a portion of his funds in speculative ventures, which would seem to promise substantial returns in the form of capital gains. Presumably, however, at least some portion of these funds ultimately will be diverted to more stable and seasoned investment mediums—securities embodying the primary qualifications of dependable income and safety.

It might be supposed that such an investment objective, obviously not unreasonable, would resolve itself into the simple problem of selecting the better grade bonds and preferred stocks, even some of the better grade common stocks, and then cutting the coupons and collecting the dividends. Unfortunately, while this may have been more or less true at one time, in recent years the problem has become more complex. Factors and conditions have arisen which have virtually compelled investors to either modify their ideas of what constituted a reasonable investment return, or what represented reasonable investment safety, if not both. Individuals dependent upon investment income have suffered a loss of purchasing power to an extent which in many cases has been a real hardship. In such circumstances the urge to make up a deficiency in income becomes almost irresistable and may conceivably lead to a really dangerous situation.

The decline in investment yield in recent years is easily explained. Through the workings of the Government's "easy money" policy, a huge reservoir of unemployed capital has been built up. Available funds and potential credit accommodations are greatly in excess of any demand which seems likely to materialize for some time. A substantial portion of these surplus funds is lodged with banks, insurance companies and other institutions and constitute an important part of their earnings assets. The constant pressure to put these funds to work has been reflected in an almost insatiable demand for high grade bonds, forcing prices to heights, at least partially artificial. The way has been made easy for large scale refunding operations, an advantage which many corporations have been quick to avail themselves. To corporations it has made possible an important savings in interest charges and preferred dividend requirements. But to the investor, it has either meant a loss of income or the increasingly difficult task of selecting replacement issues. With yields on the best grade bonds and preferred stocks forced down to 3 per cent an less, investment demand impelled by the urgency to avoid a serious deficiency in income has spilled over into second grade issues. Responding to this demand prices of second grade bonds and preferred stocks have risen to a point where average yields are lower than might otherwise be supported on a quality basis.

Such are the facts and there is no getting around them. The only alternative which the individual investor has to the acceptance of a lower income is the diversion of some portion of his funds to securities of lower quality. The latter procedure at least implies some compromise with the factor of safety.

In actual practice, however, the implied risks may prove more apparent than real. A man needing a new overcoat can buy a good one for say $50. He can buy a better one for $100. The $100 coat may have somewhat superior style and tailoring and the material may be better. However, the $50 coat will probably be just as warm as the more costly garment; it will probably, with reasonable care, wear as well; and in appearance the difference between the two coats will be hard to detect.

Bonds for Income

Issue	Call Price	1938 Price Range High	1938 Price Range Low	Recent Price	Current Yield
Arkansas Pwr. & Lgt. 1st 5's, 1956.	104¼	101⅞	86	103	4.85
Baldwin Loco. 1st 5's, 1940.....	115	102	96	100	5.00
Tex. Elec. Service 1st 5's, 1960..	104½	100½	82⅜	99	5.05
Florida Power 1st 4's, 1966......	105	90½	76	92	4.35
Milw. Gas Lgt. 1st 4½'s, 1967..	105	101	88½	99	4.55
Mead Corp. 1st 6's, 1945.......	104	104½	91	103½	5.77
B. F. Goodrich Deb. 6's, 1945...	103½	100½	78⅛	100	6.00
Int'l Paper 1st & Ref. 5's, 1947...	102½	99⅝	80½	98	5.10
Jones & Laugh. St. 1st 4¼'s, 1961.	105	98⅞	88	96	4.43
Republic Steel Gen. 4½'s, 1961.	104	95	71¼	91	4.95
Allied Stores Deb. 4½'s, 1950..	100	98¾	79	97	4.64
Armour & Co. (Del.) 1st 4's, 1955	105	99¼	88	98	4.08

So it is with second grade bonds and preferred stocks. The "second grade" classification is relative. High grade issues, of course, embody stronger elements of security, but among second grade bonds and preferred stocks there are many issues concerning which there have never been any serious doubts as to the security of interest, principal and dividend payments. Marketwise, the percentage of fluctuation in the quoted prices of second grade issues is greater than in the gilt-edge group, but in this discussion it is assumed that group fluctuations are a secondary consideration. And finally, the promise of further progress in the direction of business recovery this year should ultimately strengthen the security behind many second grade issues.

In presenting the case for second grade issues here, it is by no means advocated that the investor contemplate the wholesale diversion of his funds to them as a means of enlarging his investment income. It is advocated as a partial compromise which should also include a willingness on the part of the individual to tighten his belt another notch and accept a somewhat lower return. If he is willing to do this and exercises care and discrimination in the choice of second grade issues, the results should prove wholly satisfactory and the risks practically negligible.

For the purpose of guiding the investor in making a choice of suitable second grade issues, a list of representative bonds and preferred stocks accompanies this discussion. All of the various issues comprising these lists combine a fair degree of investment quality with commensurate yield. Most of them are currently selling below their call or redemption price and all of them have an active market either on the New York Stock Exchange or New York Curb Exchange.

For any investor whose circumstances permit him to employ some portion of his funds in second grade bonds and preferred stocks, it can be logically reasoned that his interests would also be served to considerable advantage by the inclusion of some of the better grade common stocks. Still keeping in mind the objective of dependable income consistent with safety, it would be possible through careful selection to make a choice of common stock issues which not only afford a satisfactory current yield, but a fairly dependable one as well.

In an investment program which emphasizes income, any consideration of cyclical and marginal common stocks is more or less eliminated. Companies which have been most successful in consistently maintaining generous dividends, in good times and bad, for the most part include those which are identified with the more stable industries such as food, tobacco, etc. Therefore, in any list of common stocks classified as reliable dividend-payers, and which offer an attractive yield, there is likely to be few, if any, of the dynamic type. This is not to say that the more stable issues are entirely without possibilities of price enhancement in a generally rising market, but minus the leverage of widely fluctuating earnings, market swings will not be nearly as wide as issues identified with the more volatile industries such as steel, equipment, metal and building.

The claim which common stocks make for investment consideration is a wholly valid one, even in the case of the conservative investor compelled to safeguard his capital and provide an assured income. It is true, of course, that common stocks have a synonymous association with speculation and risk. Yet the actual investment results, over a period of years involving rapid and sweeping economic changes, credited to the issues of the type comprising the accompanying list, have been highly satisfactory. Assuming that an investor held no other securities but these common stocks over the past ten years, he would have fared far better than many investors with a more diversified but unseasoned list of bonds, mortgages and preferred stocks. For example, not a few railroad bonds, rated among the soundest investments prior to 1930, have since defaulted and greatly depreciated in value. After all, no investment regardless of its theoretical rating, is any better than the ability of a company to service it or earn the dividends. Precedent, of course, is not a wholly reliable yardstick by which to evaluate investments. However, it is the most reliable tool at hand and the securities and stocks of any company which in the past ten years has been able to earn its fixed charges by a comfortable margin, provide a reasonable factor of safety for preferred dividends, or maintain common dividends without interruption are entitled to investment consideration, at least until some new development appears to threaten their record.

Common Stocks for Income

Issue	1938 Price Range High	1938 Price Range Low	Recent Price	Divs. Paid 1938	Yield
American Can	105⅛	70¾	94	4.00	4.26
American Snuff	61¾	45¾	61	3.25*	5.33
Bristol Myers	43	28	44	2.40	5.90
Com'l Investment Trust	64	31½	55	4.00	7.27
Diamond Match	30⅜	20¾	30	1.25	4.17
General Mills	79	50¾	75	3.00	4.00
Sterling Products	71½	49	70	3.80	5.40
Sutherland Paper	32	17⅞	28	1.60	5.70
United Fruit	67½	50	67	3.00	4.48
Woolworth	53¾	36	48	2.40	5.00
Beech-Nut Packing	117	94½	120	5.50*	4.58
Best & Co.	56	26⅞	50	2.32½*	4.65
Corn Products Ref.	70¾	53	63	3.00	4.76
Jewel Tea	74⅝	44¼	71	5.00*	7.04
Liggett & Myers "B"	103¾	81½	101	5.00*	4.95
American Chicle	125	88½	116	5.50*	4.70

*—Including extras.

Preferred Stocks for Income

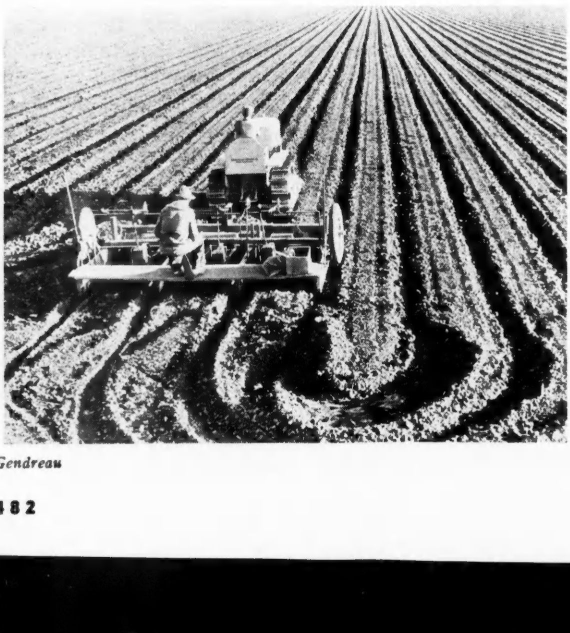
Issue	Call Price	1938 Price Range High	1938 Price Range Low	Recent Price	Current Yield
Chicago Pneumatic Tool $2.50	55	47	37⅝	46	5.40
Armour & Co. (Del.) $7	110	103⅞	82	101	6.93
Firestone Tire & Rubber $6	105	100	76	100	6.00
Crown Cork & Seal w. w. $2.25	48¼	40	29	36	6.20
Consolidated Edison of N. Y. $5	105	104	88⅞	103	4.85
Colgate-Palmolive-Peet $6	102½	104¼	78	102⅛	5.88
Loew's, Inc. $6.50	105	111¼	99	107	6.07
Tide Water Assoc. Oil $4.50	107	98	77½	95	4.74
Twentieth Century-Fox $1.50	35	38	25⅛	32	4.69
Hiram Walker-G. & W. $1	20	20⅜	17¾	20	5.00
Westvaco Chlorine $1.50	33	31½	20	31	4.84
Southern Cal. Edison "B" $1.50	28¾	29	25⅛	29	5.17
Bethlehem Steel $1	20	18⅛	12¾	17	5.88
Radio Corp. $3.50	100	66⅞	37¼	64	5.47
Pure Oil $5	105	88½	74½	76	6.55

Higher Commodity Prices Not Essential to Industrial Profits

Excess Supplies, International Barter and Changing British Position All Tend to Restrain Prices

BY M. G. SOUTHWICK

GENERAL BUSINESS in the last six months of 1938 recovered about 60 per cent of the ground lost in the 1937-38 slump. Common stocks regained 40 per cent of their losses. Commodity prices, on the other hand, showed barely any recovery from the 1938 lows. So important is the role played by raw material prices in our national economy that their conspicuous failure last year to register any recovery worthy of the name has been the topic of much discussion. It has been pointed out as a bearish factor in several business forecasts, and whether one accepts that belief or not, it is certain that many manufacturers and processors are adhering to a cautious buying policy until they can obtain a better idea of the trend of raw material prices in the months ahead. There is nothing new in this caution, however. It is simply the familiar hand-to-mouth buying policy which has been frequently applied during the past decade. That it should prevail at this time, with business recovery still in its early stages, and while the memory of the disastrous consequences of heavy inventory stocking in 1937 is still vivid, is easily understandable. On the other hand, to accept the failure of commodity prices to show any worthwhile recovery as an unfavorable omen for



Gendreau

1939 does not give proper recognition to the historically demonstrated fact that active business and good profits are wholly compatible with low commodity prices, nor does it evaluate the new factors to which commodity prices have become subject in recent years.

In the depression years 1920-21 commodity prices continued to slump for nearly a year after general business had turned upward. In those prosperous years, 1928 and 1929, commodity prices moved within a comparatively narrow range. In relation to business and earnings, a period of stable, or gradually rising commodity prices is much more to be desired than a period of violent fluctuations, which inevitably results in throwing the economic structure out of equilibrium.

Taking commodity prices as a whole, their action in the final quarter of 1938 and in the opening weeks of the current year was such as to suggest that the decline had about run its course. For some weeks now fluctuations have held within a narrow range and such action may establish the general pattern for a more prolonged period of time. Granting at the same time that over the next several months there may be some retardation in the speed of general business recovery, the general level of industrial activity this year promises to average materially better than in 1938. But whether business is better, or worse, this year, it is to be seriously doubted that the action of commodity prices will be other than a subordinate factor. Higher commodity prices might be the result of better business—but they are not an essential prerequisite. Indeed, a rapid rise in commodity prices such as occurred in 1936 might well carry a double-barreled threat to business profits. In that year the rise was so steep that it outstripped the ability of manufacturers and processors to advance finished goods prices. In an effort to protect their profit margins, manufacturers made the untimely mistake of accumulating large inventories. When raw material prices fell with equal rapidity in 1937, manufacturers were compelled to write off heavy inventory losses.

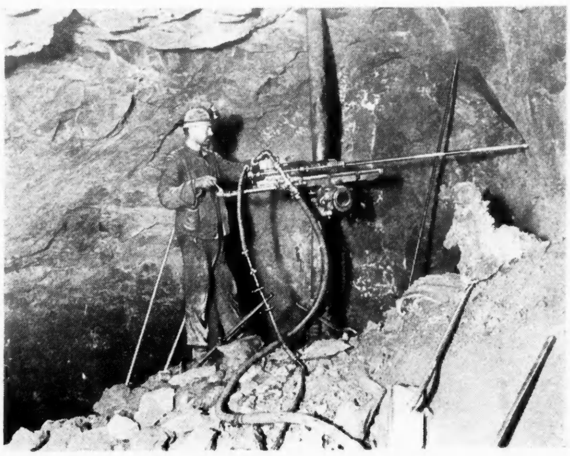
But last year the unfavorable implications of steadily declining raw material prices were in a large measure mitigated by the fact that prices of finished goods offered

stiffer resistance to the decline. The Bureau of Labor Statistics index of finished goods prices (1926—100) averaged about 10 points above the index of raw material prices. Finished goods prices declined throughout most of 1938 but at the end of the year they were still about 12 per cent above raw material prices. With the benefit of this spread between raw materials and finished goods last year, many manufacturers and processors were in a position, despite a sharp slump in sales, to show relatively better earnings.

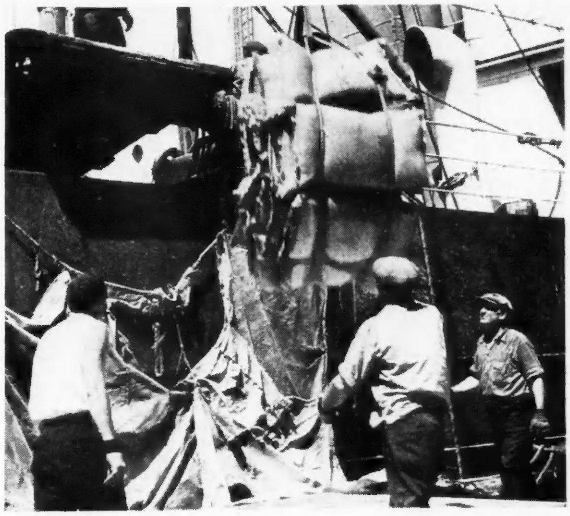
Up to this point reference has been confined solely to commodity prices as a whole. But as frequently happens, generalities have the effect of obscuring individual situations. This is particularly true in the case of commodities, as indicated by the fact that the action of not a few individual raw materials last year varied widely from that of commodity price indexes. The price divergence was particularly marked in 1938, whereas in 1937 practically all commodities declined, with the exception of a small group of manufactured commodities under the control of large producers.

Between January 1, 1938, and December 31, 1938, the Bureau of Labor Statistics' index of wholesale prices declined slightly more than 5 per cent. Contrasting with this showing for all commodities, wheat prices were off 24 per cent; corn and wool declined more than 14 per cent; zinc was down 10 per cent; coffee 7 per cent; and refined sugar 6.8 per cent. On the other hand, a number of basic commodities scored sizable gains last year. Export copper was up nearly 4 per cent, while domestic copper prices recovered nearly 10 per cent; hides were up 9 per cent; cotton, 4.7 per cent; tin, 11 per cent; rubber, 14.5 per cent; and silk, 18.5 per cent. Singularly, some of the most impressive gains were scored by commodities which have a large speculative following and are actively traded in international markets. Moreover, the upturn in such basic commodities as rubber, copper, hides and tin, which enter extensively into manufacturing operations was particularly opportune, obviating the necessity of large year-end inventory write-offs.

The threatening specter of inventory losses is ever present in such industries as the rubber tire, sugar refining, shoe and leather, oil refining, meat packing, textile and copper fabricating. The item of raw materials bulks large, and these industries, to operate profitably, must



Courtesy Copper & Brass Research



Falco from Triangle

be able to purchase large quantities of raw materials, process them and sell the finished product at a price sufficient to return a reasonable margin of profit. They operate in a market so highly competitive that it is frequently difficult for them to shift the burden of higher raw material costs to the price of the finished product. Under competitive pressure, it is not always possible to maintain finished goods prices, once there is any signs of weakness in the price of raw materials. The result is that manufacturers are often whipsawed between high cost raw materials and declining prices for their finished product. Nor are they able to protect themselves by hedging operations because most of the commodities mentioned do not lend themselves to hedging activities on a scale sufficiently large to be effective.

In the case of these industries, the problem of raw material prices is particularly acute, but every manufacturing industry must cope with the same problem to some extent. When the prospect for his particular raw material, or materials, indicates caution a manufacturer can stand aside and postpone his buying—but not for long, if he expects to stay in business. Eventually he does the next best thing. He buys from hand to mouth. The speed with which communication and transportation can be effected today has in many industries removed the necessity of accumulating large inventories. Moreover, there is scant possibility of any serious shortage in most commodities. Thus, much as a manufacturer must naturally yearn sometimes to take a chance and accumulate a large inventory when prices seem "right," knowing that by so doing he may make a tidy inventory "profit," he probably views the whole complex structure of commodity prices and decides against it.

Never has it been more difficult to evaluate the trend of individual commodity prices for more than a brief period ahead. The law of supply and demand still functions, but it has been greatly complicated by various artificial factors such as organized price control, governmental subsidies, dumping and barter systems. In recent years commodity prices have been heavily under the influence of currency devaluation and foreign exchange fluctuations. Quota (*Please turn to page 524*)

North American Company Meets the Challenge of the Times

Holding Company Has Practically Completed Corporate Simplification—Now Faces Question of Geographical Unity

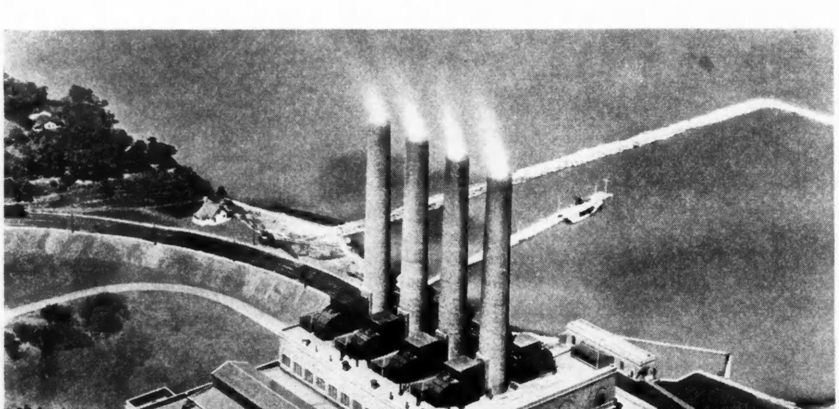
BY FRANCIS C. FULLERTON

". . . The North American Co. stands in a protective relation to these properties. It is not seeking to exploit them for present large profits. It holds their securities as permanent investments, and seeks to establish them in the favor and confidence of the public by just methods and efficient administration, and to maintain their finances on the most conservative basis."

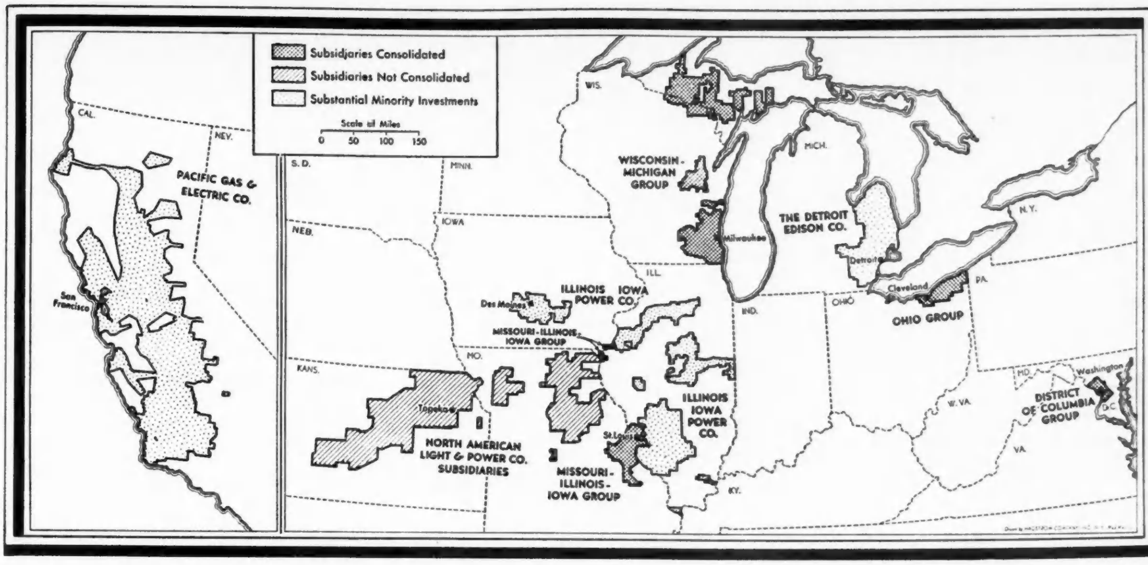
In this day of constant striving for favorable public relations, such a statement from a utility holding company lacks punch, and it lacks originality. It may very possibly represent the real intentions of its issuers, but everyone knows how a recent series of spankings helps in these matters. The large utility systems are in an uncomfortable spot; their statements to the public are the natural and legitimate result, but in such profusion over the last couple of years that most readers grow insensitive to them.

But two unusual features set apart North American Co.'s outline of policy quoted above. It was not made after the passage of the Holding Company Act, after the abuses of the twenties, after the Insull episode. No, it was made thirty-four years ago, in 1905, when the North American Co. was only fifteen years old and before utility holding companies had come into the political, or hardly the financial, limelight. Stranger than the fact that it was an independent and uncoerced statement of policy at a time when such statements were not at all necessary, though, is the fact that it has, by and large, been honored in actual practice. The parent company has treated its properties as permanent investments, building them up for the years ahead, rather than dressing them up for a quick bond sale. Finances have remained conservative, even during the wild twenties and the slump that followed. Customers get the benefit of rates considerably below the national average. In no year since 1908 have stockholders failed to receive some return in cash or stock on their investment.

Now admitting, as leaders in the drive against utility holding companies have, that North American Co. is distinguished by a remarkably fine record of fore-



The Avon Station of the Cleveland Electric Illuminating Co., one of North American's major subsidiaries.



THE NORTH AMERICAN COMPANY MAP OF AREAS SERVED BY ELECTRIC SYSTEMS OF SUBSIDIARIES AND SUBSTANTIAL MINORITY INVESTMENTS

seeing and accepting its responsibilities, the fact remains that the measures of the Public Utility Act affect this as directly as any other holding company. The Chairman of the S E C, Mr. Douglas, set a deadline of December 1st for submission of plans to comply with two main clauses of the act. First, capital structures must be simplified and the prevalent mazes of intermediary companies must be eliminated; second, operating territories must be whipped into compact groups.

The plans filed with the S E C last November have been held confidential as a matter of policy. North American, however, is going ahead with one part of its program, that of corporate simplification. This is relatively easy, since North American is not the true pyramid type of holding company which is satisfied with 51 per cent control of each of a long chain of intermediaries before the operating properties are reached. Having already cleared away a number of more or less unnecessary subsidiaries, the parent company is planning new financing through bonds and preferred stock to a total of $105,000,000 which will permit a thorough rearrangement. It is safe to say that within the near future North American's capital structure and subsidiary control will be as nearly unobjectionable as it is possible for them to be, and without any penalty imposed on the equity ownership.

The question of geographical integration is not so easily solved. Wording of the Act leaves a great deal of latitude for the discretion of the administrators who will decide when and where its spirit is being violated. Right here politics enters in a big way, not necessarily in the sense that decisions will be swayed by vote-getting considerations, but inevitably because the administrators are answerable to the executive and legislative branches of the Federal Government. The broad attitude of both these branches is subject to change as the whole question comes nearer a showdown, particularly as the motive of punishment for past offenses of the industry in general fades before the more practical purpose of deciding what is best now. Elections can produce sudden spurts in this process of change, but even without them it goes on as the question clarifies and loses its emotional heat. Looking back only over the past twelve months, real progress can be seen in the attempt to reach a settlement which will prevent abuses, yet avoid unwarranted damage to utility investors.

At first glance North American interests could hardly appear more widely scattered—from the District of Columbia to the Pacific Coast. Yet the actual consolidated subsidiaries, including all operating companies owned 75 per cent or more, fall into four compact groups.

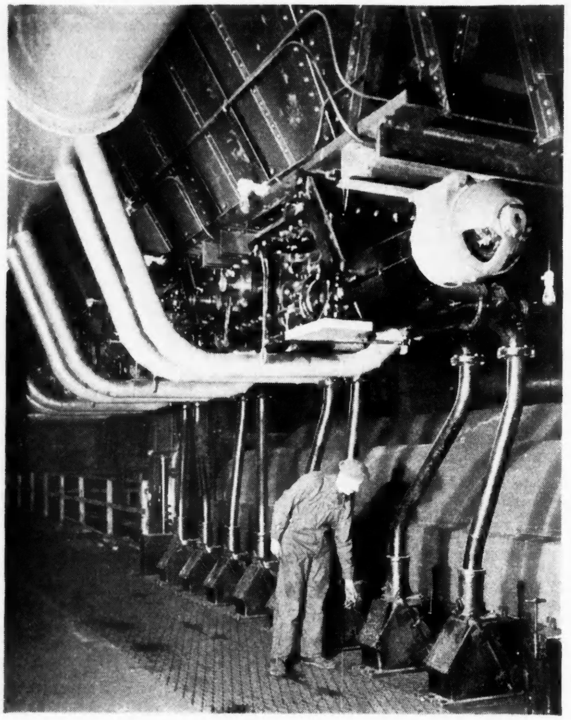
The territory centering around St. Louis and the Mississippi valley has a population of 1,500,000 and comprises 3,082 square miles. The 117 towns and cities in this district consumed 37 per cent of the system's electric output in 1937. Most of the system's hydro-electric production (amounting to only one-fifth of the total, however) is here.

Cleveland and 132 other Ohio communities consumed 26 per cent of the system's output. A compact territory, its 1,700 square miles contain a population of 1,300,000. More than the Mississippi valley group these Ohio plants adjust their activity to that of industry—foundry and machine shops, automobile parts makers, manufacturing of all kinds.

A broad sweep covering 11,589 square miles and embracing 1,515,000 population makes up the Wisconsin-Michigan group. Milwaukee and 338 other villages and cities are included, taking some 23 per cent of the company's electric output. The pace of industrial growth in this territory has been, and is potentially, rapid.

Finally the Washington electric subsidiary, serving only 631 square miles, nevertheless has a population of 765,000 from which to draw its customers. The midnight conferences as to what is to be done with the utility holding companies take place under lights powered by North American.

In addition to the consolidated subsidiaries which



The firing floor of a modern steam plant.

make up the system proper, North American controls by majority holdings the North American Light & Power Co., adjacent to its St. Louis group and serving parts of Missouri, Kansas, Illinois and Iowa, and the Capital Transit Co. of Washington, D. C. The trolley and bus operations of Capital Transit Co. are unlikely to be important to parent company income, although they supply an outlet for electric power, but North American Light & Power Co. has possibilities notwithstanding its lack of earning power in recent years.

Better than a third of the earnings available for North American common stock come from two holdings carried as investments. A block of Pacific Gas & Electric amounting to 32.9 per cent of the total outstanding (or over 2,000,000 shares) returns more than $4,000,000 in dividends annually, while a 19.3 per cent interest in Detroit Edison adds another $1,500,000 in dividends received. Together these sources of income bring in the equivalent of 65 cents a share on North American common stock. Pacific Gas has a good record of stable earnings behind it, having failed to come up to the present $2 dividend rate only in 1933 and 1934. For the twelve months ended September 30 net income was $2.42 per share as compared with $2.84 a year earlier, but the downtrend has undoubtedly been reversed since then. Detroit Edison is much more sensitive to industrial activity, depending to a great extent upon the automobile business for its profits. The slump in this company's earnings for the twelve months ended October 31 was from $8.38 to $5.48 per share. Needless to say, the reversal in this case can be equally quick.

As earnings of Detroit Edison and Pacific Gas exceed dividends by a substantial margin over any length of time, North American is the owner of an equity in profits which is not apparent. Should it be considered advisable to dispose of either block of stock, this equity would be without return except as reflected in the price received, but meanwhile the undistributed earnings are going back into the properties, either extending or safeguarding earning power. Barring any tremendous new drive on rate structures or any unexpected change in taxes or other costs, dividend income from the two large investment holdings is not only reasonably dependable now but likely to become more so in the future, although any large jump would be surprising.

North American Co. reported net income equal to $1.59 on its common stock for the twelve months to September, considerably below the $1.95 a share earned in 1937. Some improvement was doubtless registered in the fourth quarter of 1938, but for the full year an estimate of $1.60 a share would not be far wrong and would probably err on the conservative side. Since 65 cents of this amount has remained steady as income from the Pacific Gas and Detroit Edison holdings, the balance of earnings has actually fallen from $1.60 to $1.25 a share, a drop of somewhat more than 20 per cent. This provides a good clue to the type of customers and territory served by the system, placing it between the extremes of stability shown by Pacific Gas and volatility shown by Detroit Edison. Although working steadily to extend its lines into the rural districts, North American still derives some 40 per cent of its revenues from commercial and industrial sales, and most of the remainder from urban customers.

Rates throughout the system are static for the present at least. As shown by the accompanying table, residential charges are lower than the national average, although of course the fact that sales are larger per customer has a direct bearing. Strict control over rates is exercised by various state commissions, making it probable that any wide gain in profits would revive pressure for lower charges. On the other hand, the leverage present in any enterprise which must operate large plants to supply a fluctuating industrial demand would allow earnings to mount considerably in a period of rising business activity even though certain classes of customers were given the benefit of rate reductions.

No large federal power projects threaten the system's territory. If the present tendencies in popular thinking continue, it seems safe to predict that North American will be free to concentrate on operating problems and to bring down costs through increased efficiency. Pacific Gas faces certain possibilities *(Please turn to page 521)*

Rates and Earnings

	North American Co.*	National Average*	Revenues (000,000)	Share Earnings (present basis)
1929	4.94c	6.30c	$148	$3.13
1930	4.72	6.00	134	3.14
1931	4.54	5.74	118	2.61
1932	4.42	5.57	107	1.70
1933	4.21	5.49	100	1.13
1934	3.85	5.30	101	1.04
1935	3.63	4.99	107	1.35
1936	3.58	4.65	116	1.74
1937	3.41	4.39	121	1.95

*—Residential electric rates.

Annual Dividend Forecast

Part 11. Motors and Motor Accessories, Movies, Liquors, Foods, Sugar, Tobacco, Chemicals

A YEAR ago it was necessary to anticipate numerous dividend changes reflecting the swift decline in nearly all industries in late 1937 and the rather dour prospect of 1938. Today the trend is in the opposite direction. Since early summer the pace of business activity has been quickening and the prospect is for further advance and expansion of industrial operations. Earnings trends point upward, and as the year advances, should in many cases produce corresponding gains in the dividends disbursed to shareholders.

However the tendency to avoid fixing an annual dividend rate and to pay only what recent earnings justify still prevails among an increasing number of companies. Dividend policies are also modified by the desire of not a few managements to finance necessary expansion out of earnings. This will be more general now that the tax on undistributed profits has been modified.

We have taken these things into consideration insofar as possible in appraising dividend prospects for each company. Our views are indicated by individual comment and by the market rating explained in the accompanying box on this page.

As usual the Dividend Forecast is divided into three parts. Part I, covering Steels, Oils, Public Utilities, Metals, Machinery, and the various equipments, appeared in the issue of January 28. Part II dealing with Motors and Motor Accessories, Movies, Liquors, Foods, Sugar, Tobacco and Chemicals is presented herewith. Part III covering the Railroads, Aviation, Building, Merchandising and Miscellaneous Specialties will be published in the issue of February 25.

Two fundamental factors, the industry and the company itself, are used to form our ratings. The letters, A, B, C, D, are used in connection with the industry according to the current and prospective activity in the field. These letters are not concerned in any way with individual companies. The numbers, 1, 2, 3, 4, are used for rating the company on its earning power, current and prospective.

INDUSTRY	COMPANY
A—Active, further progress indicated.	1—Good earning power, substantial gains indicated.
B—Active, further progress may be slow.	2—Improvement in earnings expected.
C—Depressed, prospect for recovery favorable.	3—Gain in earning power may be slow.
D—Depressed, no nearby improvement indicated.	4—Earnings outlook unfavorable.

Motors Face a Better Year

Accessory Companies Will Benefit from Rearmament and Other Activities

AT THIS time last year the automobile outlook was obscure indeed. The decline in retail sales during the closing months of 1937 had been the sharpest on record and no more than nominal seasonal improvement could be expected for the spring. The situation is now completely different, for the worst clearly appears to be over. The first nine months of 1938 were poor, but the spurt in the last quarter of the year carried production for the final three months well above the 1,000,000-mark, or within 4 per cent of the output in the final quarter of 1937. So far this year the promising trend has continued. January output is placed at 350,000 cars and trucks and it is being confidently predicted that 1,000,000 assemblies will be seen before the end of March.

It is, of course, too early to hazard any very definite guesses as to how automobile production this year will compare with the total of 2,656,000 units turned out in 1938. One may, however, venture the opinion that it will be a favorable comparison, although 1939 assemblies are likely to be well under the 5,016,000 achieved in 1937. Probably, this year will see between 3,000,000 and 3,500,000 cars and trucks produced—a great deal depending upon the course of general business and provided there be no major shock to our economy such as would be provided by the outbreak of large scale hostilities in Europe.

It seems likely that earnings and dividends will follow the upward trend of assemblies, despite the fact that the average price of the new models shows substantial reduction. This is because the price reductions that

have been made are offset largely, if not entirely, by the lower prices at which manufacturers are obtaining sub-assemblies and raw materials, notably steel. Then, too, the automobile industry has long demonstrated an ability to obtain constantly increasing efficiency and there is no reason to suppose that this is the first year it has fallen down on this score. Thus, actually manufacturers are likely to have profit margins more nearly normal than one would at first think and the prospective increase in assemblies will bring a corresponding increase in total profits. At least this is the prospect facing the large companies which dominate the field. The smaller independents, it must be admitted, appear on the whole to be still losing ground and, unless the improvement should be a great deal more impressive than is presently anticipated, this year is likely to bring them little more than a new lease on life.

If a mildly favorable attitude can be taken in regard to the automobile companies proper, optimism towards the tire and accessory industry need be less restrained. It is true that competition here is even fiercer than that which besets the automobile industry proper: also true that few accessory companies—even making due allowance for their smaller size—have resources and trade position comparable to the big manufacturers of automobiles. On the other hand, rare indeed is the accessory company which today depends entirely upon automobiles. Moreover, with the passing of years there is a clearly defined tendency in accessory companies towards basing their business on a more diversified foundation. Many have swung into the household equipment field with refrigerators, oil burners, plumbing ware and the like. Others are now linked to the aircraft industry or have become suppliers in the factory equipment and transportation fields.

The outlook for the accessory companies is definitely improved by the increasing diversity of outlets for their products. Residential construction is one of the brightest spots in the present business picture and this undoubtedly will prove beneficial to many of the so-called motor accessories. Then there is the rearmament program, little beyond the blueprint stage as yet. This will benefit accessory companies both directly and indirectly. Direct benefits, for example, will be obtained through the orders for military aircraft, while indirect benefits will be the result of orders for equipment with which to achieve the increased motorization which has been ordered.

Although the motor accessory industry as a whole faces good prospects, the investment problem is considerably more complex than in the case of the automobile industry. The accessories cover so broad a field that care must be exercised to avoid companies that may be laggards. Also consideration must be paid to price even though the recent slump in the stock market has carried the accessories to levels which leaves less danger of over-optimistic appraisal. If the hazards of over-optimistic appraisal and a business which lags behind that of the industry as a whole can be avoided, the motor accessories offer possibilities of capital appreciation and an income which is likely to rise faster than the improvement in business.

Position of Leading Motor Stocks

Company	Earned Per Share		Price Range 1938		Recent Price	Divs. Paid 1938	Market Rating	COMMENT
	1937	1938E	High	Low				
Chrysler	$11.66	$3.50	88½	35⅜	75	$2.00	A-2	Earnings believed to have recovered sharply in fourth quarter. Prospects favor larger dividends this year.
Ford Motor, Canada "A"	2.27	NF	24	14⅝	22	1.00	A-2	Can look forward to benefits from large expansion program.
Ford Motor, Ltd.	4.2%	NF	5⅝	3⅛	4	0.17	A-2	Business has held up better than that of the industry in this country.
*General Motors	4.38	2.00	53⅞	25½	47	1.50	A-2	Unit ·ales in November and December were well ahead of 1937. January should show similar favorable trend. Dividends this year expected to be considerably larger than in 1938.
Graham-Paige	def.	def.	2	¾	1	....	A-3	Although the arrangement with creditors made late last year eased the company's immediate financial difficulties, the longer term outlook continues uncertain.
Hudson	0.42	def.	10	5	7	....	A-3	Improvement in the general outlook warrants a somewhat more optimistic attitude.
Hupp	def.	def.	2¾	½	2	....	A-3	Company recently succeeded in obtaining additional working capital, but its ultimate future is by no means secure.
Mack Trucks	2.15	def.	32½	16	28	0.25	A-2	Any further improvement in the demand for commercial vehicles should make the company's business profitable and foreshadow the resumption of dividends.
Nash-Kelvinator	NF	def.Aa	12½	6¾	8	0.12½	A-3	Modernization of plant and various adjustments making for greater efficiency put the company in a position to benefit from any further improvement in business.
Packard	0.20	def.	6	3¼	4	....	A-3	May be some little time before dividends are resumed.
Reo	def.	def.	3⅝	1	1	....	A-3	Current operations are on a restricted basis under 77-B reorganization proceedings.

Position of Leading Motor Stocks—Continued

Company	Earned Per Share 1937	Earned Per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Studebaker	$0.37	def.	9⅛	3½	7	....	A-3	Fourth quarter improvement constitutes concrete basis for a more hopeful attitude.
White Motor	0.11	NF	15¼	6⅛	11	....	A-2	Now doing much better. May make some distribution before the year-end.
Yellow Truck "B"	0.85	NF	21¾	8⅜	18	....	A-2	Arrears on the preferred as of 1/3/39 totaled $14 a share.

E—Estimated. NF—Not available. A—Actual earnings. a—Year to Sept. 30. ★—In our opinion the more attractive profit opportunities.

Position of Leading Motor Accessory Stocks

Company	Earned Per Share 1937	Earned Per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Bendix Aviation	$1.07	$0.20	30½	8⅝	26	....	A-2	Profitable last quarter believed to have more than offset loss sustained in the first nine months. Likely dividend payer this year.
Bohn Aluminum	5.03	NF	30½	15⅜	24	0.50	A-2	New magnesium products and other products for use outside the automobile industry are giving the company's business a more dependable base.
★Borg-Warner	3.62	NF	36⅜	16½	27	0.25	A-2	Strong possibility that the company will revert to a dividend payer before the close of the present year.
★Briggs Manufacturing	4.74	NF	37⅜	12¾	25	1.00	A-2	Both profits and dividends expected to rise with an increase in automobile production.
Briggs & Stratton	4.25	3.00	40¼	20	34	3.00	A-2	Continuance of relatively good showing expected.
Budd Manufacturing	0.48	def.	7½	3¼	7	....	A-3	Large arrears on the preferred to be liquidated before the common can expect anything.
Budd Wheel	0.60	def.	5¾	3	4	....	A-3	Time of dividend resumption is problematical.
Campbell, Wynant & Cannon	2.60	def.	20½	8⅝	15	0.25	A-2	Possibility of a recovery in earning power considered good.
Clark Equipment	4.56	NF	27½	10⅝	20	0.25	A-2	Should pay more than the year-end distribution of 25 cents made in 1938.
Cleveland Graphite Bronze	4.67	NF	30½	15¼	24	1.00	A-2	Business improvement lends assurance to the continuance of at least 25 cents quarterly.
Collins & Aikman	3.85a	NF	39¾	13¼	28	1.25	C-2	Both automobile fabrics and household furnishing divisions trending upward.
Eaton Manufacturing	3.65	NF	25⅜	10½	23	0.25	A-2	Profit in the fourth quarter may have wiped out loss sustained in the first nine months. 50 cents payable Feb. 25.
★Electric Auto-Lite	3.43	1.00	36¼	13¼	31	1.00	A-2	This year's earnings should show a more satisfactory margin over an annual dividend of $1.
Firestone Tire & Rubber	3.33b	1.27bA	26⅞	16¼	22	1.25	A-2	Earnings and dividends pointing upwards.
Goodrich, B. F.	def.	NF	26⅞	10	21	....	A-2	Arrears on the preferred as of 12/31/38 amounted to $1.25.
★Goodyear Tire & Rubber	1.94	NF	38½	15⅛	32	0.25	A-2	Common dividends resumed with 25 cents payable Mar. 15.
Houdaille-Hershey "B"	2.14	NF	18⅛	6	14	....	A-2	Further gains expected over those of the fourth quarter.
Kelsey-Hayes Wheel "B"	1.79	def.	10⅛	3	7	....	A-2	Resumption of dividends in the near future hardly likely.
★Lee Rubber & Tire	2.31b	3.71bA	30⅝	10¼	29	2.50	A-2	Has been doing well. Likely to pay as much this year as last.
Midland Steel Products	6.15	1.00	30⅜	15¼	25	1.00	A-2	Increased automobile production schedules will make for more satisfactory results.
Motor Products	5.49	NF	22¾	10½	15	....	A-2	Last dividend paid towards the end of 1937. Resumption this year is possible.
Motor Wheel	2.11	NF	17⅜	8	14	0.40	A-3	Last year's earnings should prove to have covered modest dividend. Improvement expected.
Murray Corp. of America	0.92	def.	10¼	4	7	....	A-3	Satisfactory results await substantial increase in automobile assemblies.
Raybestos-Manhattan	3.03	NF	24	14¾	18	0.92½	A-2	Although a loss was reported for the first nine months of 1938, black figures are expected for the full year.
Reynolds Spring	0.75	def.	12¼	4⅝	9	....	A-2	A profitable first and second quarter might bring a modest payment to common stockholders.
Spicer Manufacturing	3.61	NF	17½	7¾	14	0.50	A-2	Company's custom to make a single year-end distribution. What will be paid next December depends entirely upon the course of business in the meantime.
.Stewart-Warner	1.48	NF	12⅝	6	11	....	A-2	Recent improvement warrants a reasonably hopeful attitude towards the future.
Thermoid	0.01	def.	5⅜	2⅜	4	....	A-3	Arrears on the preferred totaled $3 as of 12/15/38.

Position of Leading Motor Accessory Stocks—Continued

Company	Earned Per Share 1937	Earned Per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Thompson Products	$2.92	$1.50	28⅞	8⅛	24	0.25	A-2	Business so far this year has shown considerable improvement.
Timken-Detroit Axle	1.68	NF	19⅜	8	15	0.50	A-2	This year's dividend likely to be larger than the 50-cent year-end payment made in 1938.
★Timken Roller Bearing	4.49	NF	55½	31¼	47	1.00	A-2	A dividend rate higher than 25 cents quarterly expected before the year-end.
★U. S. Rubber	2.21	NF	56½	21	44	....	A-2	Recent resumption of dividends on the preferred reflect the improvement in the company's affairs.
Young Spring & Wire	3.61	def.	25⅞	9⅜	18	....	A-2	May pay something before the end of 1939.

E—Estimated. NF—Not available, or no estimate possible. A—Actual earnings. a—Year to 2/26/38. b—Year to Oct. 31. ★—In our opinion the more attractive profit opportunities. c—Period from Jan. 1 to Dec. 17, 1938.

Little Change in Liquor Prospects

The repeal of the Eighteenth Amendment is five years old and the liquor industry appears to be gradually attaining some semblance of stabilization. Policies as they relate to production and distribution have become more clearly defined; consumption is at, or close to, a normal peak; and the past year saw a further weeding out of the smaller and inadequately financed producers. Dominated by a handful of large producers and a few smaller but strong independent distillers, the industry is fast acquiring the characteristic features of the food, tobacco and other consumers' goods industries. Demand promises to remain fairly constant, subject chiefly to variations in public purchasing power, while profits will probably show a similar trend, once the industry has succeeded in ironing out its wholesale and retail problems. Prices, which have declined over the past year, are likely to show some further drop during the coming months, with a corresponding narrowing of distillers' profit margins. The retail mark-up which previously was around 40 per cent is now about 33-1/3, and in large urban centers where price wars are frequent, the margin is probably not much greater than 25 per cent.

Although whisky stocks at the close of 1938 were nearly 6,500,000 gallons larger than a year earlier, the menace of excessive supplies appears to have been largely eliminated. Production of whisky in the last six months of 1938 was nearly 8,000,000 gallons less than in the same months of 1937, while withdrawals in the same period last year were slightly larger than in the last six months of 1937. Stocks of 4-year-old, or bonded whisky, are probably smaller than is generally believed owing to the heavy demand for younger whiskies for use in blending with spirits. The normal size of aging stocks of liquor will in the final analysis be determined by consumers' preferences. If demand is predominantly for bonded whisky, normal stocks must of necessity average considerably larger than they did prior to Prohibition. Before Prohibition about 70 per cent of the whisky consumed was the blended type and if this again holds true then stocks in storage could be considerably reduced. If the necessity of building up large stocks is alleviated, the financial pressure on distillers will be considerably less. With a large part of their working capital tied up in inventories and receivables, distillers have been compelled to borrow heavily from the banks, and dividends have been rather meager in relation to indicated earnings. The next six months, at least, are unlikely to bring any change in this condition. Thus the prospect may be summed up as favoring earnings about on a par with 1938, and a continuation of conservative dividend policies.

Position of Leading Liquor Companies

Company	Earned Per Share 1937	Earned Per Share 1938	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Distillers Corp.-Seagrams	3.95(a)	3.75(a)	23½	11	19	2.00	B-3	Recent sales lower and net in Oct. quarter was equal to 72 cents a share vs. $1.25 in 1937. Dividends may be maintained at recent rate.
National Distillers	3.86	3.75(c)	30	17¼	26	2.00	B-3	Company has sizable stocks of bonded whiskey. Competitive position good. No change in dividends indicated.
Schenley Distillers	5.04	2.50(c)	27½	13¾	16	0.50	B-4	Dividends passed last June. Company has apparently suffered a loss of competitive standing. No early action on dividends likely.
Hiram Walker-Gooderham & Worts	8.29	8.04(b)	54	30	47	4.00	B-3	Company has displayed consistent earning power and liberal dividends should be maintained.

(a)—Fiscal year ended July 31. (b)—Fiscal year ended Aug. 31. (c)—Estimated.

Chemicals in Strong Position

A PRIME characteristic of the chemical industry setting it apart from most others is its consistent ability to achieve new high profit and dividend levels with each recurring cyclical recovery in general business activity. This strong upward secular trend is largely attributable to two cardinal policies of the industry: (1) continuous new product research and (2) progressive price reductions on new products as use expands and costs decline.

The principal chemical companies are no more immune to depression influences than their rather evenly balanced dependence on demand from both capital and consumer goods industries would suggest. Yet research carries on virtually unabated through good times and bad alike. Last year is a case in point, possibly the most significant new development being "Nylon," the synthetic fiber with which du Pont expects to revolutionize the silk trade. Other noteworthy achievements, both in the laboratory and in the field of practical application, included the new use of tetrasodium pyrophosphate in the manufacture of soap, a development in which Monsanto, Victor and Westvaco Chlorine have pioneered; Hercules' introduction of hydrogenated rosin; Dow Chemical's marked progress in the production and sale of "Styrene," a new transparent plastic, and the same company's new venture in the production of "Thiokol," a sulphur base synthetic rubber; Union Carbide's further development of its electric welding process and its perfection of "Vinyon," a new rayon yarn. These are but a few of many similar achievements in 1938 the significance of which is emphasized by the program of plant expansion and new building being followed by the major chemical producers in sharp contrast with the dearth of capital expenditures in most other industrial lines.

Of the price changes effected in the past twelve months, probably the most important was the $2 per ton cut in sulphur which for more than a decade had been stabilized at around $18 per ton. Carbon black, for which prices are typically fixed on a six months contract basis, was also reduced to the lowest level in many years. Despite improved demand from the (*Please turn to page 527*)

Position of Leading Chemical Stocks

Company	Earned Per Share 1937	Earned Per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Air Reduction	$2.85	$1.50	67⅞	40	58	1.50	A-2	Gains in heavy industry activity would bolster earnings. Moderate dividend expansion expected this year.
Allied Chem. & Dye	11.19	6.00	197	124	173	6.00	A-1	Sizable investment portfolio. Business well diversified. Present dividend rate appears secure.
Amer. Agricult. Chem	2.95a	2.23a	28½	22	20	1.43f	B-3	Lost 46 cents in six months ended Dec. 31 against 21 cents profit year ago. Low farm income adverse factor.
Amer. Com. Alcohol	2.53b	0.01b	15	9	10	None	A-2	Trend in consumer preference toward blended whiskies helpful, but early dividend resumption doubtful.
Amer. Cyanamid "B"	2.09	0.80	30¼	15½	24	0.45	A-2	Automobile, textile and paper industries important customers. Gains in these lines should bring higher earnings and dividends.
Atlas Powder	4.40	2.69A	68	36	62	2.25	A-2	More active demand for products likely.
Columbian Carbon	8.31	4.70	98½	53¾	84	4.00	A-3	Near term earnings prospects not overly impressive, but dividend should be maintained.
Commercial Solvents	0.42b	d0.08b	12¼	5⅞	11	None	A-3	Dividend resumptions on modest scale possible this year though earnings advance will not be spectacular.
Dow Chemical	4.15c	3.91c	141	87⅞	117	3.00	A-1	Reported $1.35 for six months to Nov. 30 against $2.44 year earlier. Better showing expected. Continuance of $3.00 rate probable.
duPont de Nemours	7.29	3.79A	154¾	90½	148	3.25	A-1	Highly diversified operations closely geared to general business activity. General Motors payments influence dividend policy.
Freeport Sulphur	3.30	1.87A	32	19⅞	25	2.00	A-3	Company estimates recent sulphur price cut will reduce earnings 45 cents per share in normal year.
Hercules Powder	2.97	1.95A	87	42¾	77	1.50	A-2	Leading producer of cellulose chemicals. Fourth quarter profit gains among sharpest in industry. Higher dividends expected in 1939.
Heyden Chemical	3.94	2.90	41¼	27	39	1.50	A-2	Relatively little cyclical fluctuation in earnings. Moderate dividend increase indicated.
International Agricultural	0.16a	Nil a	3⅞	2	2⅜	None	B-3	No common dividends ever paid. Heavy preferred arrears suggest need of recapitalization.
Mathieson Alkali	1.81	1.01A	36⅞	19¾	31	1.50	A-2	Dividends exceeded earnings in 1938, but large non-cash charges provide margin of safety.
Monsanto Chemical	4.40	2.10	110	67	100	2.00	A-2	Broadly diversified producer. Earnings and dividends will conform to general business curve.
Newport Industries	2.09b	d0.12b	19½	9⅞	14	None	A-3	Earnings follow rosin prices. Share capitalization enlarged last year. Dividend not likely in near future.
Texas Gulf Sulphur	2.35b	1.37b	38	26	31	2.00	A-3	Sulphur prices will be lower this year.
Union Carbide	3.42b	1.50b	90⅞	57	84	2.40	A-1	Earnings and dividend recovery partially dependent on pick-up in heavy industries. Financial position strong.
United Carbon	5.90	3.65	73½	39	56	3.25	A-3	No early improvement expected in carbon black prices.
U. S. Industrial Alcohol	0.77e	0.01e	30¼	13½	21	None	A-3	Anti-freeze sales stimulated by cold wave. Dividends not near term prospect.
Victor Chemical	1.01	1.05	25¼	13½	24	0.90	A-3	Dependence on food industry accounts for earnings stability in 1938. Higher profits and dividends looked for.
Westvaco Chlorine	1.21b	1.02b	20⅛	10	20	1.00	A-2	Chlorine sold under contract to Union Carbide helped sustain operations last year. Present dividend seems secure.

E—Estimated. a—Year ended June 30. b—Nine months ended Sept. 30. c—Fiscal year ended May 31. d—Deficit. e—Six months ended June 30. f—Adjusted for 3 for 1 stock split. A—Actual.

Foods Have Better Outlook

The food companies last year made a relatively good showing. One might assume that this was no more than was to be expected in view of the fact that from year to year the country's consumption of foodstuffs shows little variation. But last year's showing was much less the result of this than it was the result of subnormal profit margins in the first part of the period being offset by more normal margins in the last part. The meat packing companies whose fiscal year ends October missed two good months in their latest reports and hence their poor showing is somewhat less the drastic exception it appears at first sight. Since the date of the latest reports, the operations of the meat packing companies have been more conducive to profits.

As with all fundamental industry, the state of general business is the most important single factor in the prosperity of the food companies. However, generalizations concerning the future cannot be carried very far with as diverse a list of companies as those in the accompanying table. In some cases the anticipated improvement in general business will be unable to offset the unfavorable operating conditions which were experienced last year and which show no signs of being alleviated in important degree. One can certainly look forward to no reduction in taxation in the immediate future: on the contrary, local, state and federal levies seem destined to continue the upward trend which has become so pronounced a phenomenon of the New Deal. Nor can one look forward to any decrease in labor costs and other overhead expenses. On the other hand, troubles resulting from governmental interference and the unionization of employees may well have passed their peak.

In the majority of cases if the anticipated improvement in business materializes the foods will add to the gains they registered towards the close of last year. Many demonstrated then that under favorable conditions it is possible to pass higher costs along to the consumer with little adverse effect upon sales' volume and most of the companies will continue to so demonstrate.

The investor, however, must look beyond general conditions. Sometimes a company can obtain a special advantage through a better product, a better package or a better method of distribution. At other times a decline in the price of raw material brings benefits. The sharp increase in earning power of the corn refining companies shown in the accompanying table was the result of being able to buy raw material at a lower and more basically reasonable figure.

Another consideration bearing upon the desirability of a food company for investment is the matter of inventory—not so much the inventory of the individual company but the trade inventory. The package division of the food industry, for example, is believed to have entered the present year with inventories in a healthy state and this, provided there be no sharp reversal in the upward trend of consumer demand, will go far towards assuring profitable operations.

On the other hand, this situation is to be contrasted with that of the fruit and vegetable canning division. For these companies last year was disastrous and the record is full of passed dividends, economy programs and lower prices for the securities of the organizations concerned. The principal cause of the trouble was excessive stocks and the attendant pressure upon prices. Here, the future is quite unpredictable, for all depends upon the trend of consumption between now and the new season's pack and then whether or not the latter is abnormal or subnormal.

Thus, among the companies making up an industry which is as broad as a people's appetite it is necessary to consider individual companies and individual divisions. The investor, however, can be assured that the foods will pay out as great a part of earning power as any other group. This is of definite benefit to those who are income-minded and who would rather receive their dividends as earned than see them ploughed back into additional plant, which may or may not be of future help to them personally.

Position of Leading Food Stocks

COMPANY	Earned Per Share 1937	Earned Per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Armour & Co.	0.62a	def.a	7	3⅞	5	....	B-3	Recent operations officially reported as satisfactory. Arrears on preferred.
Beatrice Creamery	2.53b	2.50c	19½	11⅜	18	1.50	B-3	Should pay at least as much this year as last.
★Beech-Nut Packing	6.26	5.50	117	94½	122	5.50	B-3	Strong financial position enables company to maintain liberal dividend policy.
★Borden	1.43	NF	19⅝	15	18	1.40	B-3	Outlook believed to have improved materially.
California Packing	2.87b	NF	24½	15⅛	16	1.25*	B-3	Retrenchment program recently imposed.
Continental Baking "A"	3.23	3.50	26⅞	8⅝	20	....	B-2	Arrears on the preferred to be liquidated before this stock can expect anything.
Corn Products Refining	2.52	3.50	70¾	53	64	3.00	B-2	Should be well able to maintain a quarterly distribution of 75 cents.

Position of Leading Food Stocks—Continued

COMPANY	Earned Per Share 1937	Earned Per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Cream of Wheat	$2.00	$1.60	29½	21⅝	27	2.00	B-3	Strong financially, but will need increased earning power to make 50-cent quarterly completely secure.
Cudahy Packing	def.a	def.a	21⅝	12	14	....	B-3	Outlook improved, although dividends on the preferreds must be liquidated before the common can expect anything.
General Baking	0.50	1.00	11⅛	6½	9	0.80	B-2	Believed to have covered last year's dividend with a fair margin to spare.
General Foods	1.75	2.00	40⅜	22⅞	39	2.00	B-2	Usual quarterly of 50 cents payable 2/15. Rate should be maintained.
★General Mills	4.46d	4.17d	79	50¾	75	3.00	B-3	No change in regular quarterly of 75 cents anticipated.
Hershey Chocolate	Nil	NF	60	40	54	3.00	B-2	Lack of common earnings in 1937 reflects inventory adjustments at year end. Similar effects on 1938 earnings not expected.
Libby, McNeil & Libby	0.89b	NF	9	5⅛	5	....	B-3	Near-term resumption of common dividends doubtful.
Loose-Wiles	1.01	1.60	23½	14¾	18	1.05	B-2	25 cents paid Feb. 1. May pay more later.
Morrell, John	def.a	2.63a	38⅜	22¼	37	0.50	B-3	Record is better than that of the packing industry as a whole.
National Biscuit	1.61	1.80	28	15½	24	1.60	B-3	Usual quarterly of 40 cents payable 4/15. No change expected.
★National Dairy	1.53	NF	16½	11½	14	1.00	B-3	Outlook improved. May pay more than 20 cents quarterly.
Pacific American Fisheries	2.03b	NF	11¼	5½	5	0.45	B-3	Dividend omitted 7/15/38. Resumption problematical.
★Penick & Ford	0.74	3.00	58⅝	41	55	3.00	B-2	Establishment of a 75-cent quarterly expected.
Pillsbury Flour	2.76d	def.d	26¼	20½	24	1.60	B-3	No change likely in rate of 40 cents quarterly.
Purity Bakeries	0.60	1.50	15⅛	7	13	1.00	B-2	Year-end payment of 55 cents brought 1938 dividends to $1. Outlook better.
Snider Packing	1.31e	NF	15	8⅜	14	0.75	B-3	Resumption of dividends may be some little time away.
Standard Brands	0.73	0.65	9¼	6⅛	7	0.62½	B-3	Quarterly dividend of 15 cents cut to 12½ cents last October.
Stokely Bros	2.12d	def.d	11	5	5	....	B-4	Arrears accumulating on the preferreds.
Swift & Co	1.55a	def.a	21	15	19	1.20	B-3	Repetition of the loss sustained in the last fiscal year seems unlikely.
United Biscuit	1.90	2.20	20	14	16	1.15	B-2	Outlook favors continuance of recent improvement.
Ward Baking "A"	Nil	Nil	19¼	8	14	....	B-3	Large arrears on the preferred to be liquidated before this stock can receive anything.
Wesson Oil & Snowdrift	3.80f	3.27f	39	25¼	26	2.50	B-2	Business is highly speculative and dividends will fluctuate with earnings.
Wilson & Co	0.28a	Nil a	5⅞	3	4	....	B-3	Arrears on the preferred $3.75 as of 11/1/38.

★—In our opinion, the more attractive income possibilities. E—Estimated. NF—Not available, or no estimate possible. *—Plus extra in stock. a—Year to Oct. b—Year to Feb., 1938. c—Year to Feb., 1939. d—Year to May 31. e—Year to March 31, 1938. f—Year to Aug.

Sugar Prospects Have Deteriorated

No more than a glance at the accompanying table is needed to show that the sugar industry has fallen upon hard times. Earnings are down, in the majority of instances sugar company stocks are selling nearer their lows than their highs, while the column of comment is full of remarks concerning the omission of dividends. Lower prices are the direct cause of the sad showing, for raw sugar last year averaged 2.94 cents a pound, United States duty paid, whereas the average for the previous year was 3.45 cents. The more remote cause of the trouble was that which brought about the lower prices and this was the large quota fixed by Secretary of Agriculture, Wallace.

It cannot be pointed out too often or too strongly that the man who buys sugar securities today is making an investment which is governed only in small part by economics. Politics is much the more important consideration. While the Sugar Act contains restrictions which the Secretary of Agriculture must take into account in determining the amount of sugar which the people of the United States may consume, in actuality there are ambiguities in the law which allow him great leeway. If he fixes quotas larger than the trade thinks the country can absorb, then prices go down and sugar producers suffer—some suffer more than others, it is true, but all suffer in degree. If he fixes quotas lower than the trade thinks the country can absorb, prices go up and there is rejoicing in the sugar industry at the expense, of course, of the American consumer.

The attitude of the present Secretary of Agriculture is that the consumer should be exploited to a minimum. Hence quotas higher than actual consumption have been fixed, stocks have tended to pile up and prices go down. Last month, in accordance with the Sugar Act which directs him to determine requirements on the basis of the sugar consumed in the twelve months to October 31, the Secretary fixed the total quota at 6,832,157 short tons, raw value—an amount which was 200,000 or 300,000 tons larger than the trade had been expecting. The final quota for 1938 was 6,780,566 tons, or considerably above the quantity estimated to have been consumed. In the light of this, the fixing of the initial 1939 quota at a figure higher yet was almost demoralizing.

Long strong politically, the beet sugar interests are swinging into line with a view to having the 1939 figures lowered and hence bring about higher prices. Up to the time of this writing, however, the Department of Agriculture has stood firm, pointing out the danger of higher

prices stimulating unduly beet sugar production and also that beet growers are doing relatively well.

The one division of the sugar industry which clearly appears to face favorable developments are the Cuban producers. It seems certain that in the revision of the Reciprocal Trade Treaty with Cuba the tariff on Cuban sugar will be reduced by a moderate amount. Favorable though this is, however, it will only bring a net gain if prices reverse the downward trend which has lately been in evidence.

Position of Leading Sugar Stocks

COMPANY	Earned Per Share 1937	Earned Per Share 1938	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
American Crystal Sugar	$3.79a	$2.33a	16¾	8¼	9	0.75	B-3	Dividend omitted 7/1/38. Beet sugar interests are seeking a lower quota in order to bring about higher prices.
American Sugar Refining	2.20	NF	31	19⅛	20	1.25	D-3	Dividend omitted 10/1/38. Outlook for domestic refiners is an obscure one.
Central Aguirre Associates	3.96b	2.65b	28	18⅞	21	1.12½	B-3	May be some time in recovering past earning power.
Cuban-American Sugar	0.74c	def.c	6¼	3	4	....	D-3	Arrears on the preferred totaled $50 a share as of 1/3/39.
Fajardo Sugar	5.52b	3.81b	35¾	22½	27	4.00	B-3	Doubtful whether the company can maintain quarterly payments of $1.
Francisco Sugar	0.29d	def.d	5⅝	2½	3	....	D-4	Company's position is not encouraging.
Great Western Sugar	3.52e	3.08e	32	23½	25	3.30	B-3	Maintenance of 60-cent quarterly does not appear to be wholly assured.
Guantanamo Sugar	0.23c	def.c	1¾	⅞	1	....	D-4	Arrears of some $80 a share on the preferred obscure outlook for the common.
Holly Sugar	5.42a	1.69a	25¼	11⅝	12	2.25	B-3	Dividend payable February has been omitted. Near-term outlook uncertain.
National Sugar Refining	1.22	NF	18¼	10⅝	11	1.50	D-3	Paid 25 cents in January. Continuance not wholly assured.
South Porto Rico Sugar	2.86c	1.12c	28	15½	18	1.75	B-3	Has just paid 25 cents. May manage to maintain quarterly of this amount.

NF—Not available, or no estimate possible. a—Year to March 31. b—Year to July 31. c—Year to Sept. 30. d—Year to June 30. e—Year to Feb. 28.

Only Small Gains for the Tobacco Companies

Last year, with an output of 163,658,508,313 units, the production of cigarettes established a new high record. It was the sixth successive yearly increase. On the other hand, 1938's production was only .6 per cent ahead of 1937, or the smallest gain since the start of the upward trend in 1933. Manufactured tobacco gained 1.7 per cent last year, snuff production 1.1 per cent, while the output of cigars fell 3.4 per cent.

For the industry as a whole the gain in output last year was insufficient to offset high tobacco costs, increased taxes and higher overhead expenses. Earnings therefore were generally lower.

Volume appears to be the key to what the present year holds for the tobacco companies. Manufacturers of cigarettes can expect some reduction in tobacco costs, but as they operate on a three-year-average-inventory the reduction entering into their "cost of sales" will be quite small. Probably it will do little more than cancel out the further increase in other expense which is to be anticipated. Hence, the industry must look to volume for any important increase in earning power.

The investor, however, must not ignore the possibility of important shifts within the industry which will affect profits regardless of the volume attained by the industry as a whole. Last year, for example, among the popular cigarettes, Camels and Chesterfields are estimated to have lost some ground, while Lucky Strikes gained some and Philip Morris gained a good deal.

Position of Leading Tobacco Stocks

COMPANY	Earned Per Share 1937	Earned Per Share 1938	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
American Snuff	3.12	NF	61¾	45¾	63	3.25	B-3	Usual beginning-of-the-year extra of 25 cents paid in addition to regular quarterly of 75 cents.
American Tobacco "B"	5.03	NF	91⅝	58¾	89	5.00	B-3	Quarterly of $1.25 payable 3/1/39, although last year's earnings may prove not to have covered this rate.
Axton-Fisher "A"	3.43	NF	46½	13½	44	....	B-2	Considerable recovery in earning power has taken place.
Bayuk Cigar	2.17	2.08a	21	9	19	1.00	B-3	Doing well, but the continuance of a conservative dividend policy is expected.
General Cigar	2.80	1.81	28	20⅞	23	2.00	B-3	Sharp drop in earnings may foreshadow lower dividends.
Helme, G. W	6.00	NF	111	80½	116	7.00	B-3	Usual extra of $2 in addition to regular quarterly of $1.25 paid in January.
Liggett & Myers "B"	6.34	6.08	103¾	81½	104	5.00	B-3	Regular quarterly of $1 seems quite assured.
Lorillard, P.	0.85	NF	21¾	13¾	21	1.40	B-3	Last year's earnings believed to have been substantially ahead of 1937.
*Philip Morris	10.91b	NF	143¾	75¼	97	6.75†	B-2	Company's cigarette has been making steady gains in popularity. 75 cents on increased stock paid in January.
Reynolds Tobacco "B"	2.76	2.37	46½	33¾	41	2.90	B-3	Sales decline and higher costs are the reason for the decrease in last year's earnings. 50-cent interim payable Feb. 15.
U. S. Tobacco	1.80	NF	36	29½	35	1.66	B-3	Likely to continue paying out in dividends most of earnings.
Universal Leaf Tobacco	7.82c	7.14c	86	48	75	5.00	B-3	Paid $1 Feb. 1. Recent record is good, although the business is speculative.

*—In our opinion, the more attractive profit possibilities. NF—Not available, or no estimate possible. †—Plus 50% in stock. a—Nine months. b—Year to March 31, 1938 on the stock then outstanding. c—Year to June 30.

Movies Face Big Problems

THE onset of the 1937-38 depression found the movie industry in the midst of one of its periodic spending sprees. For the past twelve months it has been suffering the inevitable hangover. And now, like the inveterate toper, the industry has once more sworn off and is earnestly vowing its temperance in the future.

Not to take too cynical a view, we are inclined to grant that production expenditures are not likely to get seriously out of hand again; not again, that is, until the lesson of the past year is forgotten in the next wave of general business prosperity. Meanwhile, with the high cost films of two years ago now pretty well written off and theatre attendance in a gradual cyclical uptrend, most of the motion picture companies are probably due for at least moderate improvement in earnings and, in some cases, dividends.

This is by no means to say the industry does not face a number of important problems. The Government's anti-trust suit is one and though the outcome of the case cannot definitely be foretold, ultimate segregation of producing and exhibiting activities as well as abandonment of the block booking practice, whether pursuant to court order or consent decree, seem likely. The long term effects of such a development on the industry as a whole should, we believe, prove salutary. The immediate result, however, might well be a period of unsettlement with the effects of the change varying from one company to another. Paramount, for example, with upwards of 1,300 owned or controlled theatres, would undergo drastic dismemberment (though the pieces might later acquire a greater value than the former whole) and would probably find it necessary to reconsider present production policies and distribution methods. On the other hand, Columbia, operating solely in the production field, would be virtually unaffected in this respect. As to elimination of block-booking, the impact would fall more evenly though Loew's, whose studio policy has always emphasized quality rather than quantity of output, should fare better under the more competitive marketing conditions that would follow than most others in the group.

Far from the least of the movie makers' worries is their gradual loss of foreign markets, especially that of Great Britain which accounts for the greater part of the industry's receipts from abroad. A few years ago income from foreign exhibition contributed over 35 per cent of the producers' revenues; today the figure is probably less than 25 per cent and may go lower.

Another factor which looms in the lay mind as the outstanding threat to the movies' future is in reality one of the industry's lesser problems. Television, scheduled to make its public debut at the New York and San Francisco Fairs this spring, is at least several years removed from anything resembling large scale operation. Major technical, financial and operating posers must still be solved before other than strictly localized telecasting will be feasible. And when at length television does become of age it may well prove to be an essentially complementary rather than competitive medium. Reasoning thus, two leading picture companies, Paramount and R-K-O, are already active in the new field.

For the most part, the matters touched on above are of an essentially long range nature. As to the months immediately ahead, the primary considerations are that costs chargeable to current operations will be generally lower in relation to gross income which in turn should reflect at least a moderate cyclical gain in theatre attendance. As in the past, leverage will figure importantly in common share earnings gains of the fully integrated companies (as long as the Government allows them to remain such). Use of color will quite probably continue to increase, while double billing together with bank nights and similar attendance premiums, now more or less chronic ills, will unfortunately persist.

Position of Leading Motion Picture Stocks

COMPANY	Earned Per Share 1937	Earned Per Share 1938E	Price Range 1938 High	Price Range 1938 Low	Recent Price	Divs. Paid 1938	Market Rating	COMMENT
Columbia Pictures	3.26a	d0.07a	19	9	12	0.50g	B-3	Amortization of high-cost films brought loss in Sept. quarter. Better showing likely from here on. Dividend increase probable.
Consolidated Films	d0.11b	d0.12b	2⅜	1	1½	None	B-2	Finances bolstered by $700,000 proceeds from sale of subsidiary, but poor earnings outlook and heavy preferred arrears preclude common dividend.
Loew's, Inc	8.46c	5.65c	62½	33	48	3.00	B-2	Management exonerated in stockholders' suit. Current results compare favorably with year ago. Moderate dividend increase likely.
Paramount	1.97f	1.05f	13⅝	5¾	11	None	B-3	Recently called $5,000,000 of 6% debentures. Leverage important to earnings. Dividends improbable.
Radio-Keith-Orpheum	NF	NF	5⅜	1¾	2½	None	B-3	Reorganization plan confirmed by court. Net of about $500,000 for 1938 was but fraction of last year's, but trend has turned upward.
Technicolor	0.58	1.40	26½	14¼	19	1.00	B-2	Completion of new plant this month will double capacity. Continued earnings and dividends gains indicated.
Twentieth Century-Fox	4.12	3.50	28⅜	16⅛	22	2.00	B-2	Present $0.50 quarterly payments well covered by earnings. Substantial extras seem likely.
Warner Bros	1.48a	0.41a	8	3¾	5½	None	B-3	High cost 1937 productions now amortized. Earnings should benefit but preferred arrears and restricted cash position stand in way of common dividends.

a—Fiscal year ended June 25. b—Nine months ended Sept. 30. c—Fiscal year ended Aug. 31. d—Deficit. E—Estimated. f—Excluding share in undistributed earnings of non-consolidated subsidiaries. g—Plus 2½% stock dividend. NF—Not available.

Political Pressure on Chain Stores Eases

Substantial Recovery Looms For Well-Managed Systems

BY J. S. McCORD

Such partial statistical evidence as we have today is sufficient to suggest that most of the leading chain store companies have recovered all of the shrinkage in volume and earning power suffered in the 1937-1938 business slump. Their outlook has improved decisively as regards both political and economic factors, and they appear headed for a notably satisfactory year.

On the political side, all signs indicate mounting and increasingly effective opposition to discriminatory chain store taxation locally and nationally. It is a good bet that the pending Patman Bill, which seeks to impose literally confiscatory taxes on all the larger chain systems, is really "out the window."

On the economic side, inventories are in good shape, prices are stable, volume is pointing up in line with rising public purchasing power, and profit margins are improving.

By the time some of the optimistic assumptions made in this article can be fully supported by sales and earnings reports of chain merchandising enterprises such data will be ancient history. Such monthly sales figures as are issued, however, show that December sales were higher than for the same month in either 1937 or 1936 for such companies as J. C. Penny, Grant, Kresge, Woolworth, G. C. Murphy, Melville Shoe, Montgomery Ward and Sears, Roebuck—and for most of these this means a new record high. While January has brought the usual seasonal decline in sales, it has continued the major recovery trend.

Thus far few 1938 earnings reports have been issued, due partly to the fact that accounts of many merchandising companies are based on fiscal year to January 31. Safeway Stores, first important chain to report 1938 figures, shows net equal to $4.02 per common share for the year ended December 31, against $2.62 in the preceding year. Woolworth in the calendar year earned $2.95, as against $3.40 in 1937. From sources believed to be reliable come estimates that Kroger Grocery earned around $1.90 to $1.95 in the past year, against $1.62 in 1937. While there is no hint of earnings of the Great Atlantic & Pacific system, it may be noted that directors in January voted a $3 dividend on the common whereas previous quarterly payments had been $1 and total payments in 1938 were only $4. Checking with the recent virtually unique bull market in stocks of leading grocery chains, it is evident that these companies fared better over the past year in terms of earnings recovery than most other types of chains and that they gained relatively most from the changed political outlook, since they had been the most acute sufferers under the Patman tax threat.

Reported profit for the past year, however, is one thing and current earning power is something else again, with the latter much the more important factor bearing upon trend of security values. While indicated earnings of leading grocery chains for last year were relatively good and while the trend of their earnings apparently should continue upward, sharpest 1939 profit gains very likely will be shown by chains whose 1938 reports will not look particularly good.

Inventory Losses Out of the Way

Outside of the grocery field, chain store reports for 1938 or for fiscal years ending January 31 will in most instances reflect inventory losses and relatively poor earnings for the first half of the twelve-month periods covered. For example, Sears, Roebuck and J. C. Penney are expected to report earnings somewhat lower than a year ago because sharp recovery in profits during the closing months of the year was not enough to offset earlier shrinkage. The same is true of most others outside of the grocery field. Assuming no early termination of the general recovery cycle and assuming stable or gradually firming commodity price trend—both assumptions appearing valid to the writer—it will be a different story in 1939. From present indications well situated variety, mail order and apparel chains will show sharper gains, on a year ago comparison, during the first half of the current year than will the grocery chains.

In contrast with the general stock market, which is now substantially under the high of last November, such chain grocery stocks as Safeway, Kroger and First National Stores have recently advanced to new recovery highs. To keep the perspective straight, however, it must be kept in mind that whereas 1937 was a satisfac-

Chas. Phelps Cushing Photos

The new aristocrats of the chain stores—Kress and Woolworth on Fifth Ave. at 39th St., New York City.

tory year for most types of merchandising, it was a poor year for chain grocers. For instance, Safeway's net of $2.61 per share in 1937 was the lowest in many years, less than was earned in either 1932 or 1933. The 1938 profit of $4.02 per share was more than was earned in the years 1937, 1935 and 1934 but was less than was earned in the years 1936, 1933, 1932 and 1931—and was less than half what was earned in 1929. If estimate of about $1.90 for Kroger is approximately correct, that would better the years 1937, 1931 and 1932 and equal the year 1936, but would remain substantially less than all other years in the company's history of the past decade. Profit of $3.50 a share for A. & P. in the year ended February 28, 1938, was less than half of the worst previous annual total back to 1929.

Since dollar volume of grocery chains showed no significant improvement until late last year, gain in earnings apparently was due to more efficient operation and firmer price structure, with consequent betterment of operating margin. In all chain merchandising profit per dollar of sales is relatively small and is smaller in the case of grocery chains than any others. For this reason what would be a minor variation in profit margin for many companies can radically change equity earnings of grocery chains doing an enormous volume of business. For A. & P. the difference between retaining 1 cent of the customer's dollar as profit and retaining 1½ cents is 50 per cent. For companies like Penney and Sears, Roebuck, with a normal profit margin around 6 cents per dollar of sales, variations of a cent or so in profit margin, while important, are far less important than in the case of grocery chains. Changes in the physical volume of business are smallest for the grocery chains, next smallest for the 5 cents to a dollar chains like Woolworth and largest for the mail order and department store chains.

In relation to the political status of the chains the most important change in the picture has not been so much the Right-ward drift in public opinion, as reflected in the November election, as the growth of organized opposition to anti-chain legislation on the part of groups which command the attention of Congress—notably the labor unions and some of the farm organizations.

In some of the chains union organization, both by the A. F. of L. and the C. I. O., has made considerable headway. The long-run effect will be to raise labor costs, but on the favorable side it will be to give the chains a powerful ally in blocking discriminatory taxation. It is no accident, but practical union politics, that the A. F. of L. has formally condemned the Patman bill. The reasons for the pro-chain attitude of most farm organizations are obvious, since the grocery chains are important outlets for farm products and all chains appeal to farmer buyers because of their low-price policy.

In 1938 nineteen discriminatory chain store tax bills were introduced in seven states, with only one becoming law. In 1937 ninety-seven such bills were introduced in thirty-five legislatures, with eight being adopted. At the peak of the anti-chain agitation in 1933, a total of 225 discriminatory bills were introduced, with thirteen enacted into law.

These figures indicate rather clearly that discriminatory and regulatory taxation of chains has now dwindled to a very minor menace. This, of course, has nothing to do with straight taxation for revenue. In most states, especially the populous industrial states, budgets and taxation point relentlessly upward, and chains, like other large scale business enterprises, can certainly expect no important relief in their tax bills and probably can expect a larger tax burden. It need hardly be said that larger taxes and higher wage costs will fall heaviest, as has been the case in recent years. *(Please turn to page 522)*

The Stockholder's Guide

Auditors Should Be Responsible to the True Owners of the Business

BY M. L. SEIDMAN, C.P.A.

The financial report is the stockholder's mainstay. It must be completely and unquestionably dependable or all other safeguards are worthless. Mr. Seidman discusses here the practicability of making the auditor responsible directly to the stockholder, recognizing the difficulties which have nullified the attempt in England. Active stockholder interest is the first requirement for the success of any such plans as those of Radio Corp. and American Can.

In a famous English case involving a question of the auditor's liability, the judge, in his decision, stated that while the auditor is expected to be a watch-dog, he is not expected to be a bloodhound. Some recent cases of sensational fraud in accounts where accountants were making audits for many years, brought about official investigations to determine whether, in the particular cases, the auditors were at least watch-dogs, and if so, whose watch-dogs. Specifically, the question has been raised whether in the case of a publicly owned company, the auditor is a watch-dog for management or for the absentee stockholders?

Today, the auditor is employed by and directly responsible to management. Because management employs him, it is claimed that he cannot help but be subservient to management. The question then arises whether the auditor should not be employed directly by the stockholders themselves, and if he were so employed, whether he would not then be more likely to represent their interests.

The argument runs that in a business, large or small, having but few owners, all of whom left the management of the business to others, the auditor would certainly be employed directly by the owners themselves as a check on management. In such a case, the owners would presumably say to the auditor: "We have put our money in this business, we are not active in its supervision, and although we have the utmost confidence in management's ability and integrity, we want you to check thoroughly into the situation and satisfy yourself that everything is O. K. You do whatever you think necessary to satisfy yourself. When you have finished with your job, report to us fully."

When auditors are employed under such an arrangement, the claim is that they are not likely to tread too softly in their investigation or mince too many words in reporting their findings to the owners. Nor are they likely to be influenced in any way by the wishes of management either as to how far they are to go in their investigation or how diplomatically they should present whatever criticism is necessary in their report.

If all this holds good when there are just a few owners and none is active in the management, the question is raised whether the same situation should not apply when there are thousands of such owners. Yet, under our present set-up, management rather than the owners select the auditor in the publicly held corporations. Management also arranges for his fee and the scope and limitation of his audit. Under such circumstances, the argument is that the auditor cannot approach his examination with too challenging an attitude, particularly as to information coming from management itself. Also, that he frequently finds it expedient to present a situation in the most favorable light for management, even though he protects himself by qualifications and explanations in his certificate and report.

As best evidence of the truth of these arguments, it is frequently pointed out that where audits are made directly for creditors, or for a prospective purchaser of a business, or, for that matter, for account of any interest outside of management, the auditor feels free and invariably does present the situation without kid gloves and regardless of where the chips may fall. With management being the auditor's boss, there is, it is claimed, a conflict between the auditor's ethics and his self-interest, so that he is frequently required to straddle or soft-pedal a situation if he is to retain the client.

It is well to observe at the outset that management in this country has had a remarkable record of personal integrity and it would be most unfair as well as impractical to use a case involving the most unusual record of collusive fraud in our history as any kind of a basis for legislation on normal affairs. Nevertheless, it may be safely taken for granted that if the auditor could be made absolutely independent of management, audit results would be considerably more satisfactory from the absentee stockholders' point of view.

Great Britain has had some experience in this field,

but it has hardly solved the problem. There, stockholders are required, at the company's annual meeting, to elect an auditor who then becomes responsible directly to the stockholders. He reports to them, and he is usually present at the annual meeting so as to answer any questions which may arise with regard to his audit or report. That sounds as if it might be a real improvement over our own system. Actually, it is not; at least, not to any great extent. And for the simple reason that in practice it is management that really selects and retains the auditor there, very much as we do here.

At the time of the organization of the company, management employs an auditor. He must then be confirmed by the stockholders at the first annual meeting. Usually, he is so confirmed and remains on as the company's auditor. Seldom do the stockholders nominate an auditor of their own choice thereafter. So that the way the arrangement works out, the stockholders rubber stamp the selection made by management. If that is the situation in England where there is a very much greater auditor-consciousness on the part of stockholders than there is here, the likelihood is that such a law would not improve our own situation very much.

Remedy Not Easily Found

What then is the remedy? Legislation on the scope of the examination itself would obviously be impractical. It would be like passing a law instructing a doctor what to do and what not to do when he examines a patient for symptoms of disease. The possible ramifications of an audit under various conditions and in all kinds of businesses operating under every conceivable variety of internal control is something which legislation or inflexible rules cannot begin to cover. The practice of accounting is the practice of a profession. It requires skill and judgment, and no one has yet found how to legislate into being an acceptable substitute for skill and judgment.

Reputable Certified Public Accountants have long ago recognized their responsibility to the public and to interests other than those who directly employ them. Yet, if we admit that it is only human for them, under present circumstances, to be somewhat influenced in favor of those who control their employment, an improvement might well be brought about if the selection of the auditor and the terms of his employment could be arranged for directly by the stockholders. Then, auditors would not be subject to hire and fire by management. That would make the auditor independent of management.

Radio Corporation of America has recently announced that hereafter its auditors will be selected at the annual stockholders' meeting. The American Can Co. has made the same proposal and in its proxy ballots it has named a specific accounting firm to be voted on for approval or rejection in connection with the next annual audit. That may be a straw in the wind. It is certainly a step in the right direction, although, as already pointed out, in view of experience in England, this may not mean very much. But it is nevertheless pretty certain that private companies can themselves show the way to a solution of this problem.

By and large, management itself would undoubtedly welcome an independent check, such as could be assured if made directly for the owners of the company. It would be a most desirable development, therefore, if more of our large and publicly owned companies took the initiative in working out practical plans for stockholder-auditor selection. This might in time show the way for constructive legislation that could be more generally applied.

But to make any real progress in this direction, there must be a much greater interest by minority stockholders in the affairs of their companies than now exists, for in the absence of such an interest, any new rights given them would be useless and would soon amount to control by management in substance, if not in form. On the other hand, the companies themselves would have to cooperate by holding meetings at a convenient time and place, by making it as simple and as easy as possible for the stockholders to exercise their rights and by educating them on the importance of their doing so. Today, unfortunately, the average stockholder is more interested in the ticker price of his stock than in the affairs of the company.

Given stockholder interest, it would seem also that for any plan to be effective, stockholders should not only elect the auditor but should also nominate him in the first instance. This would mean setting up nominating machinery by a vote of stockholders; then, some process of elimination would have to be evolved so as to reduce the number nominated to, say, five or six names; and, finally, the submission of those for the selection of one at the stockholders' annual meeting. The determination of the scope of the audit and the amount of the audit fee would likewise have to be completely divorced from the management. All the voting could be done by mail, and given a sufficient degree of interest on the part of stockholders, satisfactory results might be attained in this way.

Limiting Management Voting

There is a further contention that voting for selection of auditors should not be done on a strict per share basis. It is argued that while that basis is all right for other purposes, it is not all right when it comes to the owners of a business choosing someone to check up on those who have been entrusted with its management or upon those who, by virtue of a majority of stock ownership, are in control of the business.

If we look at it from the point of view of the owner of the business on the one hand, and management on the other, then there would seem to be no good reason why the owners should not vote their stock in actual proportions to ownership in the same way as they vote in any other matter. It would, however, be necessary to provide some limitation on the voting strength of management where management also owns stock or procures proxies. At the same time, the audit scope and fee must not be left a prey to an irresponsible minority.

The mere mention of some of these difficulties is perhaps sufficient to indicate the problems involved and the danger of attempting to treat them by legislation on a theoretic basis. Publicly owned companies should direct their immediate attention towards a solution of these problems from within if premature and perhaps harmful legislation is to be avoided.

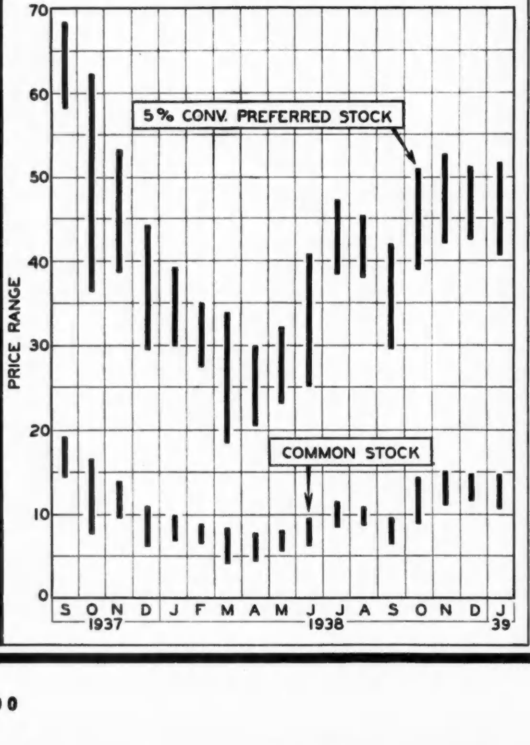
International Paper & Power Co.

A Transition from Paper to Power and Back Again

BY PAUL THANE

The name is the same but the International Paper & Power Co. of today is nothing like what it used to be. Six or seven years ago about two-thirds of the net available for interest and reserves was derived from utilities. Today, nothing is derived from utilities and the company's huge investment in International Hydro Electric Co. is carried on the books at zero. Not that over 40,000,000 shares of a sound utility such as International Hydro are worth nothing, though that will be discussed later, but that International Paper & Power's present and future earnings depend 100 per cent upon the manufacture and sale of paper.

The paper industry is divided into two principal parts: the older but still steadily expanding newsprint division, extremely sensitive to general business conditions, and the younger rapidly-growing kraft or heavy brown paper division. International Paper & Power is the leading company in both fields—a $250,000,000 corporation that dwarfs most of its competitors, and that has only in recent years begun to realize on its great potential earning power. Let's look at the newsprint branch first.



Newsprint manufacturers entered 1939 with the best prospects in several years. Total stocks as of December 31 were 620,548 tons, the lowest since February, 1937, and a drop of 26,000 since the end of November. Publishers supplies, adjusted, were 393,784 tons as of the end of the year, a decrease of 372,974 tons during 1938, and well below the high of over 900,000 tons reached in October, 1937. The price is $50 a ton compared with $42.50 in 1937, in which year International Paper & Power earned $9,135,000, equal to $2.47 on the common stock.

The bare figures are decidedly favorable but they need some explanation. In March, 1937, International Paper & Power announced a price increase of $7.50 a ton to $50, effective January 1, 1938, which was generally followed by the industry. As a result, publishers stocked up at the then prevailing price of $42.50 and the present sharp drop in publishers' supplies is merely a return to the normal amount of one to two months' supply on hand. Nonetheless, the heavy carry-over has been worked off, demand is good, and the $50 price is likely to be maintained.

International Paper & Power owns 20,000,000 acres of timber land, equal to 50 years' supply, and has a total capacity of 2,400,000 tons of pulp and paper a year. Since the present management took office in 1935 the company's fortunes have undergone a remarkable change. Sales have increased $37,000,000 in three years or 43 per cent, but the cost of sales has gone up only 29 per cent. This in a period of rising wages, materials, and other costs. The net improvement is $15,107,000 in operating profit in 1937 as compared with $1,757,000 in 1934. Old, inefficient properties were either modernized and put on a profitable basis or sold, the latest example being the sale to Bowater's Paper Mills, Ltd., for $5,500,000 of the Newfoundland subsidiary, thus getting rid of an unprofitable property and eliminating $24,883,000 of subsidiary funded debt. The new management has been quick to take up new methods of manufacture and much of the lower costs are due to plant economies achieved by up-to-the-minute machinery. Given increased demand and larger gross sales the profit ratio should show even further increase.

About 39 per cent of the company's total production is newsprint, and newsprint consumption rises and falls

radically with general business. For example, advertising lineage in 23 principal cities fell 42 per cent from 1929 to 1933 and the average number of pages of leading United States dailies dropped from 32 to 24 pages. Consumption during 1938 was 25 per cent below 1937, the decrease due partially to the overstocking previously referred to. Newsprint is sold on one year or longer contracts to about 500 customers of which the ten largest use about half of the amount sold. Because newsprint production is the largest percentage of total output International Paper & Power earnings depend largely upon general business levels in the United States where 75 per cent of the output is sold. With normal demand and the higher $50 a ton price improved earnings over coming months are probable.

Logs going through the preliminary barking drums prior to being reduced to pulp for the manufacture of paper.

The kraft industry has been undergoing considerable change. In 1937 kraft paper and board producers imported one-third as much kraft as was produced in the United States and total consumption ran 25 per cent above capacity. To meet the demand International Paper and other manufacturers constructed mills in the South near the source of cheap Southern pine. Today, capacity is above total consumption and the result has been fluctuating prices for kraft products. For the week ended December 24, 165 mills operated at 77.6 per cent of capacity as compared with 40.4 per cent in the same week a year previously. Prices have been up and down, the most recent change being a rise in mid-January of $2.50 a ton in kraft wrapping paper to $70 a ton, versus $61.75 in mid-November. Liner board was $55 a ton during a good part of 1937 and has been down to $40 a ton. So that it can be seen that kraft prices haven't been very stable.

International Paper & Power's kraft production is sold direct to manufacturers and accounts for about 31 per cent of the company's total production. Actual figures for 1937 were 2,116,000 tons produced of which 830,836 tons were newsprint (including the Newfoundland subsidiary with capacity of 180,000 tons) and 650,030 tons of kraft paper and board. Although the outlook for kraft is difficult to gauge because of the unstable price situation there are several counterbalancing factors. The total sale of kraft paper and kraft board has risen steadily and sharply over a period of years and is still gaining. It was this basic trend that resulted in rapid plant expansion in the South. Pine boxes are being gradually replaced by kraft board as shipping containers and new uses are being developed each year. Although increased capacity usually means lower prices, increased volume may help to hold up profit ratios, and it is reasonable to assume that the possibilities of price changes were weighed by the management before their expansion plans were consummated. It is also worth noting that for a number of years the kraft division has been the most profitable, two thirds of the 1937 net having been contributed by kraft.

International Paper & Power owns 40,000,000 shares of the common stock of International Hydro-Electric System, 1,000,000 shares of class B, and 39,799 shares of class A, and International Hydro-Electric in turn controls New England Power Association. Prior to 1934 the earnings of International Hydro-Electric were included in the consolidated income statement of International Paper & Power although the latter company never actually received a dollar of income because its holdings were principally in common stock and International Hydro never declared dividends on the common. Since 1934 International Hydro-Electric has been excluded from the consolidated financial statements and the entire investment is carried on International Paper & Power's books at zero.

The official view is that the value of the holdings are "indeterminate" — though this will most certainly be modified when the hoped-for opportunity to dispose of them is presented. For, however it may be carried on the books, International Hydro had gross operating revenues of $61,000,000 in 1938 and net earnings for the year ended September 30, of $574,986 against $2,591,987 the previous year. Moreover, Gatineau Power, International Hydro's principal subsidiary, began supplying 18 per cent more contract and standby power to the Hydro-Electric Power Commission of Ontario on October 1, last, and has contracted to increase the supply further to 25 per cent more after October 31, 1939. Revenues will not increase proportionally as the company will be supplying to the Commission part of the surplus power it now sells as secondary power. *(Please turn to page 524)*

Who Will Make the Money in Shipbuilding?

Rearmament and Commercial Business a Spur to Certain Companies

BY C. V. CRAVEN

THE American shipbuilding industry faces the most active period since the World War. It entered 1939 with over twice the tonnage under construction as at the beginning of the previous year and within recent weeks orders from the Maritime Commission and the Navy have further swelled the total.

This is a welcome revival, for the naval holidays set by the Washington treaty of 1922, the Geneva treaty of 1928, and the London treaty of 1930, combined with the negligible amount of merchant ship construction during the ten years from 1927 to 1937, left the shipbuilding industry in a very sick condition.

Rebuilding of our navy up to the 1930 treaty limits was authorized by the Vinson-Trammell Act of 1934. Further extensions of this building program were authorized by Congress in 1936 and 1938. Should the proposed two ocean navy be authorized at the present session of Congress, we would embark on a construction program which would extend for fully six years ahead.

But it is not all a matter of re-armament; the report of the Maritime Commission to Congress on November 10, 1937, portrayed the Merchant Marine as in drastic need of new construction and a revitalizing of personnel. The program of the Commission calls for 500 new Merchant Ships to be built over a period of 10 years, at the rate of approximately 50 ships each year. It is felt that this construction program will provide replacement of obsolete ships and afford a naval auxiliary fleet necessary to our proper national defense. Within the past fortnight contracts have been awarded for ten passenger-cargo liners, bringing the total vessels under construction for Maritime Commission Account up to 63 in number and their finished cost will be approximately $178,-000,000.

Now the questions arise: who will benefit from this naval, and maritime business? In what companies will shipbuilding contracts have the broadest effect on the income statement of this year and next? The choice must be a discriminating one, for, to reflect any benefit the company must have the management and facilities to profit by the contracts it gets; and ship construction must be an important enough part of its entire activities not to be offset or submerged by other types of work. For example, U. S. Steel through its Federal Shipbuilding subsidiary is a participant in shipbuilding activity, but this division, even under the best conditions, contributes only a minor part to the corporation's gross revenue. On the other hand, New York Shipbuilding or Electric Boat have no other interests than shipbuilding and rise or fall on this business alone. These are points for those who seek a speculative stake in the prospects of the industry, to keep in mind.

Due to the burden of excessive restrictions which are entailed in Navy work, several yards do not bid on this type of contract. The Vinson Act, for example, limits profits to ten per cent. The Walsh-Healey Act requires a shipbuilder to comply with all labor standards imposed by it, and he must exact the same standard from those whose equipment goes into the vessel. Several yards specialize only in Navy work, as they have found a tre-

mendous increase in accounting overhead, due to taking private contracts along with those of our Government. The Navy is learning, however, that efficient production in private yards can be obtained only by cutting much of the red tape, and new contracts will undoubtedly be much better for all concerned.

As in the case of all heavy industry, shipbuilding must operate at a sufficient capacity to cover substantial overhead charges before a "pay point" is reached. With the merchant fleet program of the Maritime Commission in full operation, and the 20 per cent increase in strength for the Navy authorized in the last session of Congress, the two or three years ahead should prove entirely satisfactory to holders of well chosen shipbuilding and marine equipment securities. As the Navy yards are now operating at capacity, there will unquestionably be a modification of the present naval construction rule which requires at least 50 per cent of such work to be awarded to Navy yards. While battleship construction is now virtually limited to three yards, all on the East Coast,—Fore River (Bethlehem), New York Shipbuilding, and Newport News Shipbuilding and Dry Dock, the larger volume of other Navy work will go to private yards on a better basis than heretofore.

In our submarine building program, for example, no other private yard is as favored by experience, equipment and personnel as is Electric Boat. This company's main plant is located at Groton, Conn., close by our main East Coast submarine base and training school, and has facilities for repair as well as construction. This company's wholly owned subsidiary, the Elco Works, is a noted builder of small yachts and might be a bidder for construction of a part of the fleet of high speed coastal patrol boats now being considered for the Navy.

Representative Shipbuilding Stocks

Company	1938 Dividend	Recent Price
American Shipbuilding	$2.00	29½
Bath Iron Works.............	.....	7
Electric Boat	.60	12⅞
New York Shipbuilding—		
Participating	.....	12¾
Founders	.....	10¾
Todd Shipyards	5.50	76

Electric Boat has not had a long and favorable earnings record. After the high points of the World War, it went through years of rather disheartening results, but more recently it has begun to show its merits and some intimation of its potentialities. Modestly capitalized with only 752,726 shares and a small funded debt, its per share earnings begin to show up well on a moderate net income. In 1936 the earnings were 48 cents, 68 cents in '37 and the recent declaration of a 60 cent dividend suggests a still better showing for 1938. At current levels around 12 the stock has speculative promise.

Our best integrated shipbuilding and repair organization, having yards on both coasts, and capable of handling every phase and type of ship construction is Bethlehem Shipbuilding Corp., Ltd., a 100 per cent owned subsidiary of Bethlehem Steel Corp. As a complete study of the parent corporation will be forthcoming in the issue of February 28, we will defer further discussion of this situation until then.

Federal Shipbuilding & Dry Dock Corp. is a 100 per cent owned subsidiary of United States Steel Corp. and is located at Kearny, New Jersey. Navy bids by Federal will probably be limited to destroyers and auxiliaries, but it is now on contract with the Maritime Commission for several cargo vessels of the C2 type and several tankers for Standard Oil of New Jersey.

New York Shipbuilding, located at Camden, N. J., is now working on Navy contracts for light cruisers, destroyers, auxiliaries and was recently awarded the contract for a new 35,000 ton battleship, the South Dakota. Navy work will certainly occupy most of this company's attention in the year or two ahead as contracts now in progress are valued at more than 90 million dollars. Capitalization is more complex than for most of our shipyards and consists of $2,800,000, first mortgage sinking fund 5s, due November 1, 1946; 17,850 shares of $100 par 7 per cent cumulative preferred stock, carrying arrears of $15.75 on January 1, 1939. Following these are 325,000 shares participating common listed on New York Stock Exchange, and 175,000 shares of founders' stock listed on the Curb, the latter carrying sole voting power. After preferred dividends are paid, the participating stock gets 65 per cent of remaining net and founders' shares get 35 per cent. With labor trouble settled by a contract which extends to October 5, 1939, there is hope that the stockholders may anticipate some earning power in the year ahead. There is a possibility that new financing for working capital may be undertaken when a stable market develops.

Bath Iron Works, located at Bath, Maine, carries on a shipbuilding tradition of many years' standing. New blood and money came into the company several years ago and the yard has been operating at virtual capacity ever since. Specializing in destroyer and auxiliary construction for Navy account, and having built several vessels for the Coast Guard, as well as trawlers for the Grand Banks fishing fleet, Bath should be readily able to obtain a good share of any new business within its facilities which is offered to the industry. Capitalization consists solely of 418,974 shares of common, now selling around 7 on the Curb. Earnings of 58 cents on a smaller number of outstanding shares were shown for 1936. Losses on private business offset other profits in 1937 so that only 5 cents per share was earned. Stock dividends at the rate of 6 per cent were paid in 1937, but no action was taken by directors in 1938. It is reasonable to believe that the year ahead will record the resumption of dividends, as capacity operations are now in force.

Sun Shipbuilding, a wholly owned subsidiary of Sun Oil Company, has extensive repair as well as construction facilities. It has not recently been a bidder on Navy work, but has just been awarded four of the Maritime Commission's C3 cargo vessels to be propelled by Diesel power. Several of the C2 type ships are now under construction in the yard at Chester, Pa. Sun has a wide experience in tanker construction and is a licensee for the United States in building the Doxford Diesel used in large horsepower installa- *(Please turn to page 528)*

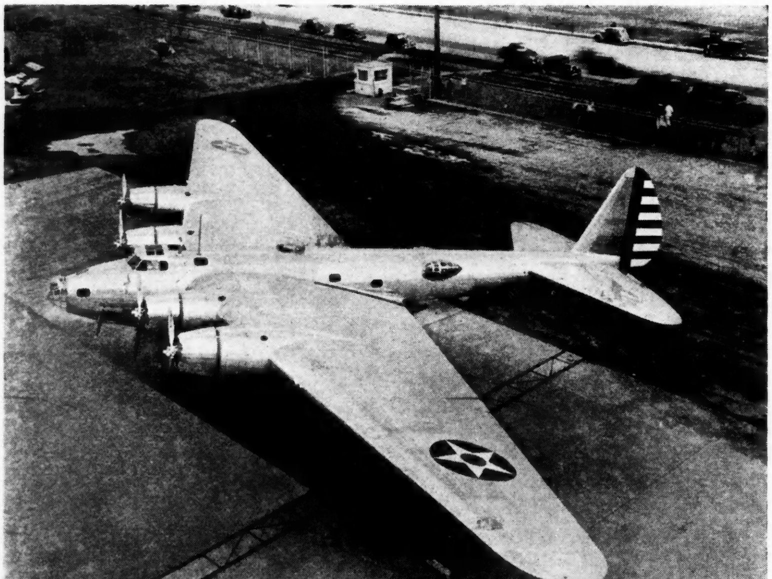
For Profit and Income

Price Cuts Denied

A contributing factor to the recent selling of steel stocks was the published report of weakness in the steel price structure. According to the report, although there were no outright price cuts some steel makers had eliminated extras and made other concessions and that consequently there had been some falling off in consumer buying. Asked to comment at the annual meeting President Grace of Bethlehem Steel said that the steel market had been gradually improving in stability and firmness ever since October and November. President Weir of National Steel denied the presence of any weakness and further stated that none of the larger companies had shaded prices by dropping extras. With firm scrap prices and the expectation of peak steel demand in March price changes are improbable.

What's Wrong with Boeing?

Aircraft builders present some peculiar difficulties in an analysis of their income statements. Large sums are expended in developing new models and the charges are usually prorated over a number of years. When delivery of the planes is made earnings may improve quite rapidly. A case in point is Boeing whose outlays for six clipper ships for Pan American Airways have been rather heavy. Do not be surprised if future Boeing reports make an improved showing.



One of the formidable bombers which Boeing is building for the U. S. Army.

An Important Invention

A totally new type of radio wave which may have a revolutionary effect on both beam flying by aviation pilots and the development of television has been produced by scientists at Stanford University and leased to Sperry Corporation. Called the rhumbatron, it generates waves about one-tenth of the length of present equipment, waves of relatively greater power, tractibility, and sharpness. In blind flying the beam will be much narrower, giving the pilot a more exact knowledge of his position and thereby increasing safety. Also there is greater strength of signals from a distance for while with conventional apparatus power problems multiply with shorter wave lengths the rhumatron has no such difficulty. It can also be used to advantage on the new absolute altimeters. Its value to television will be in its scale of precision in separating individual wave lengths, thus providing large numbers of transmitting bands.

Case Report

J. I. Case Threshing Machine Co. earned $8.89 for the year ended October 31, compared with $11.37 the previous year. Sales were off 13% and net 16%. This was a better comparable showing than most farm implement manufacturers whose

sales were off 25-30% but is partly due to strikes in 1937 which closed plants and cut down sales and earnings for that year. Inventories rose $5,700,000 over a year ago and cash fell $8,000,000. $540,000 was set aside for inventory adjustment. The decrease in net was due to lower sales, expenses which do not fluctuate with sales, and higher costs especially taxes, wages, and raw materials. The company paid taxes equivalent to $7.75 a common share. The decrease in sales was wholly domestic as foreign sales rose. In order to avoid foreign exchange losses the company borrowed $825,000 from banks abroad to purchase dollar exchange, permitting the immediate transfer of funds to the United States as sales are consummated. Case has no blocked funds in foreign countries.

Investment Trust Policy

Adams Express Company bought about $1,000,000 worth of stocks during periods of market weakness since the first of the year. The management has responded to stockholders' demands and instituted a new policy of purchasing securities yielding a larger average income, thus stressing yield rather than appreciation. During the six months ended December 31, the trust sold 11,400 Sunshine Mines, 9,000 Interlake Iron, 8,800 Anaconda, and 5,000 U. S. Steel. Purchases were 11,000 International Nickel, 10,000 Petroleum Corporation, 9,200 Phelps Dodge, and 6,300 Radio Corporation. Many investment trusts report sales of silver and copper stocks.

All Ears

Possible change in the government's silver buying policy may have an adverse affect upon silver stocks with mines in foreign countries, notably U. S. Smelting. Domestic silver prices may not be lowered but foreign-mined silver, of which the Treasury has purchased about six ounces for every one of domestic, is expected to be cut. * * * The companies so far known to have higher 1938 earnings than they did in 1937 have been doing better than the rest of the market. Examples are: Safeway Stores, Lee Rubber & Tire, Victor Chemical, Cluett Peabody and General Tire & Rubber. * * * General Electric was the low bidder ($2,490,999 for electric generators) on the Shasta Dam, key unit of the Central Valley project of California. * * * Hercules Powder's business is currently running about 8% ahead of 1938. Earnings for 1938 were $1.95 versus $2.97 the previous year. * * * Now that utilities are becoming more popular two preferred stocks should show appre-

(*Please turn to page 528*)

Developments in Companies Recently Discussed

Allis-Chalmers has received a number of sizable orders in the past few weeks, continuing the upward trend that began in December. Recent contracts were electrical equipment totaling $290,000 from Youngstown Sheet & Tube, 18 large motors from B. F. Sturtevant Co. of Boston, transformers totaling $432,252 from the Los Angeles Board of Water & Power Commissioners, and two hydraulic turbines costing $600,000 from the Santee and Cooper River projects in South Carolina.

Holland Furnace will withdraw 5,000 shares of convertible preference stock for redemption April 1, 1939, at 105 and accrued dividends from holders of record February 15, 1939.

Western Union installed the first automatic telegraph at Essex House, Central Park South, N. Y. C. The instrument is housed in a small cabinet fastened on a wall and telegrams for transmission are dropped into a slot in the cabinet. Senders need only write in black ink or black pencil, or type and drop into the slot. The exact facsimile of the handwriting or message is received automatically at the main telegraph office.

Eaton Manufacturing Company's operations at their axle plant are the heaviest of any January in ten years. The rush is the result of increased demand for two-speed axles which were optional equipment with six of seven top ranking truck manufacturers. Three shifts are working and construction will soon start on a moderate plant expansion.

Du Pont de Nemours, Bendix Aviation, and Atlas Corporation are backing a new company that plans to produce all-plastic airplanes. If experimental work is successful the company will make airplane wings and fuselages of plastic material instead of metal. The work is being done with thin veneers of wood cemented or impregnated with plastic material. Haskelite Manufacturing and Bakelite Corporation are also working on the same thing in conjunction with Fairchild Aviation Corporation except that synthetic resins are used, employing a different principle. Planes made of plastics have been in operation over a year so that the idea is practicable. Inasmuch as the construction of wings and fuselages with millions of rivets is one of the slowest operations in plane building the use of plastics would go a long way towards speeding up aircraft production.

Bethlehem Steel Corporation's unfilled orders of $162,774,713 on December 31, were the largest in the company's history, surpassing even the munition-building days of the World War. At the end of 1937 unfilled orders were $93,470,063. A battleship contract accounted for about $50,000,000 of the increase. Under the present navy program armor plate capacity is booked ahead for three or four years.

Six Stocks for Appreciation and Income

Selected by THE MAGAZINE OF WALL STREET STAFF

National Lead

The name National Lead conveys only a hint of the exceptionally broad foundation upon which the company's business rests. Not only does the company fabricate almost anything in which lead is a prime ingredient, but also makes many other products complementary to the main line. Products include painters' materials of many kinds sold under the well-known trade-name "Dutch Boy," and in addition to white lead, red lead, colors, flatting oil and linseed oil, the company also produces titanium white, credited with certain advantages over white lead, printers' metals, plumbers' and canners' materials, a wide range of lead oxide and such miscellaneous products as lead pipe, sheet lead and solder. Building and construction is one of the principal consuming industries for the company's products, but others include rubber, chemical, automobile, pottery and glass.

Although the nature of the company's business is such that activity is likely to conform rather closely to that of general business, the company has long been a consistently profitable enterprise. In this achievement, no small measure of credit is reflected upon the conservative policies which have always characterized its management. The capital structure of National Lead is comprised of 243,176 shares of $7 A preferred and 103,277 shares of $6 B preferred. There are 3,095,100 shares of common stock outstanding. At last reports, the company's financial position was characteristically strong. As of June 30, last, current assets including some $7,500,000 in cash and marketable securities, totaled $35,600,000, whereas current liabilities were less than $5,000,000. In 1936, the company made its best showing since 1929. Net in 1936 of $7,232,530 was equal, after preferred dividends, to $1.71 a share for the common stock. In 1937, however, due chiefly to a sharp decline in sales in the last six months, on which were superimposed substantial inventory mark-downs, net of $4,886,951 was equal to only 94 cents a share for the common stock. In the first half of 1938, a further sharp decline in sales cut net to $1,804,864 or the equivalent of 27 cents a share for the common stock. Since then, however, sales have doubtless responded to the increased tempo of general business activity and earnings for the full 1938 year will probably be in excess of the conservative 50-cent dividend.

National Lead common stock, although not a particularly volatile issue, would appear to be worthy of inclusion in a selected list of industrial issues promising good market gains over the medium term.

Caterpillar Tractor

The preliminary report of Caterpillar Tractor Co. for the year ended December 31, 1938, disclosed net profit of $3,235,709, equal after dividend requirements on 115,152 shares of 5 per cent preferred stock, to $1.41 per share on the 1,882,240 shares of common stock. This was a substantial decline from earnings of $10,168,689 or $5.24 per share in the preceding year. Responsible in a considerable measure for the decline in earnings last year was the drop of about $15,000,000 in sales to $48,246,139. In addition, however, the company was forced to contend with new competitive factors in its field. These took the form of price reductions last June which ranged up to 14 per cent on the company's tractors and up to 23 per cent on diesel engines. Prior to these price reductions, sales had fallen off about 35 per cent. Since the lower prices have been in effect, sales have reversed the downward trend, although profit margins are still substantially lower than a year ago.

The adverse factors enumerated above have been reflected in the market action of the shares. From a 1938 low of 29⅝ recovery to current levels of around 43 has been comparatively modest. For the past three months, the shares have fluctuated within the narrow range between 42 and 48.

Caterpillar Tractor Co. is frequently classified as a manufacturer of farm equipment. This, however, is normally true only to the extent of about 10 per cent of the company's output. While a large number of Caterpillar tractors are employed in agricultural operations, they are also utilized in a large scale in a wide variety of industrial activities, such as road building and maintenance, dam and irrigation projects, lumbering and quarrying. Pioneering in the utilization of diesel power, Caterpillar Tractor has for some time ranked as the largest producer of diesel engines on a horsepower basis.

Last year total dividends paid on the company's common stock amounted to $2 a share. In view, however, of the company's failure to fully earn disbursements, some doubt must naturally be raised as to the maintenance of this rate. On the other hand, the com-

pany's activities are such that they should show prompt response to any improvement in the general level of business activity. There is also a possibility that the company would be an important beneficiary of any large-scale defense program, including the proposed mechanization of military forces. On the basis of recent earnings, the shares obviously are not undervalued at prevailing quotations, but in relation to the company's demonstrated earning power under more normal conditions and the possibility of substantially improved operations from this point on, current levels might well prove an advantageous buying point for medium term commitments.

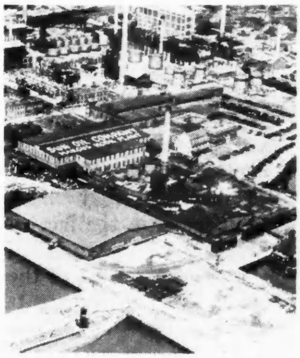
Owens-Illinois Glass

Owens-Illinois Glass Co. is rated the largest manufacturer of bottles in the United States and the company has been identified with the development of some of the most successful of the modern uses to which glass is being applied. Output includes not only all types of commercial glass containers but a wide variety of service glasses, milk bottles, glass insulators, building blocks and glass fibre. The formation of Owens-Corning Fibre Glass Corp. as a mutual enterprise by the Owens-Illinois Glass Co. and the Corning Glass Works marks the transition of these fibre products from the research laboratory to the commercial field, with rapidly developing markets. Rounding out its complete line of products, Owens-Illinois manufactures tin containers and novelties and a diversified variety of plastic closures. The company's share of the liquor bottle market is estimated to be about 45 per cent and products are reputed to account for about 40 per cent of all bottles used in the United States. At the most, the combined output of beer and liquor bottles, however, probably accounts for no more than a third of the company's total sales of all glass containers. Beer bottles alone are estimated to account for about 5 per cent. The probabilities are, therefore, that the company has not felt seriously the competition of tin containers in the retail distribution of beer.

In 1937, the company reported net income of $9,351,627, including $1,055,972 cash received from the sale of patent rights and licenses. After provision for surtaxes and undistributed profits, net was equal to $3.51 a share on 2,661,204 shares of capital stock. The company's latest statement discloses an estimated profit for the year ended December 31, last, of $5,382,000. Based on the 2,661,204 shares of capital stock outstanding at the year-end, earnings last year were equivalent to $2.02 per share. It is the company's policy to pay no fixed dividend but to adjust the rate to conform closely with earnings. The last four payments have been at the rate of 50 cents a share, from which it might be inferred that sales and earnings in the final months of last year turned upward. Any improvement in business, as a whole, promises to be promptly reflected in later earnings. Recently the company received one of the largest single bottle orders in the history of the industry when it signed a contract with the Brewing Corp. of America for 48,000,000 bottles, involving $750,000.

Credited with an unbroken dividend record dating back to 1907 and closely identified with the more dynamic aspects of the glass industry, the shares of Owens-Illinois Glass may justly be included among the more promising industrial equities.

Sun Oil Co.



In line with the general experience of the oil industry last year, lower prices for both crude and refined products not only levied a heavy toll on the dollar sales of Sun Oil, but also resulted in a substantial decline in net earnings. The company's preliminary report covering 1938 operations revealed a decline of some $18,000,000 in sales and net income totaled $3,085,119, as compared with $9,544,085 in 1937. After payment of preferred dividends last year, earnings available for the 2,315,916 shares of common stock were equal to $1.07 a share. Net in 1937 was equal to $4.17 a share. In the face of the sharp decline in earnings, the company took no action on its usual year-end stock dividend, although cash dividends at the rate of 25 cents per share quarterly have been maintained.

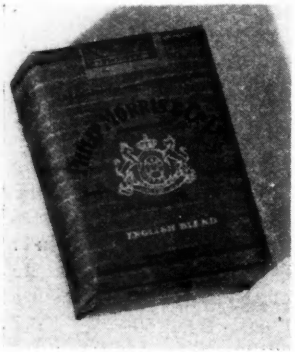
At the present time, the oil industry is suffering one of its perennial handicaps in the form of excessive supplies of gasoline and fuel oil, a condition which has brought considerable pressure to bear on retail prices. Despite the fact that consumption in recent months has been higher than is seasonally normal at this time of the year, low prices have prevented refiners and distributors from realizing the full benefits of sustained demand. The situation could be promptly remedied, however, by a reduction in refinery runs and precedent suggests that this may be achieved within the near future.

Sun Oil is a well-rounded unit, engaged in all major phases of the oil industry. Recently the company, in conjunction with Socony-Vacuum, has been active in the development of the Houdry process of oil refining and is contemplating an extensive revision in its refinery equipment this year. Sun Oil has a 30 per cent interest in the Houdry Process Corp., which, if all of the advantages of this process are realized, may well prove to have been a profitable acquisition. A subsidiary, the Sun Shipbuilding Co., holds an important place in the construction of tankers, cargo and passenger vessels. Recently this subsidiary was awarded a contract for the construction of four vessels, involving an aggregate of more than $12,000,000. The extensive merchant and Naval construction program which will be undertaken over the next several years may conceivably make important contributions to earnings of Sun Oil.

Admittedly, Sun Oil common stock, at recent levels

around 58, is not cheap. On the speculative possibility, however, that the adverse conditions which prevailed last year and in the early weeks of 1939 may be substantially mitigated in the months ahead, quotations would be subject to substantial upward adjustment. From a strictly investment viewpoint, the shares have long been regarded as one of the sounder oil equities, and as such may be endorsed for inclusion in a diversified portfolio.

Philip Morris



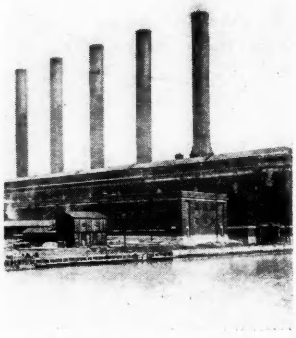
In less than five years Philip Morris has established itself firmly as a successful and aggressive unit in the cigarette industry. Sales and earnings over the past several years have recorded exceptional gains, the more so because they have been made in the face of unusually keen competition. Not the least of the company's achievements has been its ability to build up a large popular demand for its products, without recourse to costly promotion efforts.

According to reliable estimates, sales of the company's principal brand "Philip Morris" cigarettes totaled 9,400,000,000 last year. On this basis, the company's sales increased about 34 per cent over 1937. On the basis of this estimate, it would appear that the Philip Morris brand accounts for about 7 per cent of the total cigarette sales in the United States. In 1937 the company's proportion was 5.76 per cent; in 1936, 4.36 per cent; in 1935, 3.30 per cent; in 1934, 2.50 per cent. In other words, the company's proportion of total sales has practically tripled in five years.

The company's latest earnings statement which covers the six months' period ended September 30, last, disclosed net profit of $3,157,967, which was equal, after taxes and dividends paid on the new 5 per cent preferred stock since the date of issue, to $5.95 a share on the 519,151 shares of common stock then outstanding. In the comparable period of 1937, net totalled $3,136,433, equal to $6.04 a share on 519,139 shares of capital stock. Last June the company sold 77,873 shares of a new issue of 5 per cent convertible preferred stock, and the proceeds amounting to about $7,426,000 were used to expand working capital. Since that time, however, the outstanding preferred shares have been reduced to 66,823 through conversion into common stock. Last November the company paid a stock dividend of one-half share of common stock, resulting in increasing the outstanding common to approximately 780,300 shares.

Currently, earnings have had to absorb somewhat higher tobacco costs, as well as increased advertising outlays and heavier taxes. Nevertheless, the probabilities are that earnings for the full fiscal year, which ends March 31, next, will be well over $7 a share for the common stock. On the basis of this showing, the shares, recently selling around 95, are conservatively valued. Moreover, the present 75-cent quarterly dividend appears conservative in relation to indicated earnings and might be increased to at least $1 quarterly. On the whole, the shares may be endorsed as a worthy medium both for income and longer-term price appreciation.

Commonwealth Edison



Commonwealth Edison, together with its subsidiaries, comprises one of the largest public utility systems in the country. It supplies the entire electric power and light requirements in the City of Chicago and furnishes electricity, gas and other services in the suburban areas adjacent to Chicago and in other portions of Illinois as far west as the Mississippi River. Electric business accounts for about 90 per cent of revenues. The company's record of successful operations extends over a long period of years and dividends have been paid on the common stock, without interruption, since 1907.

During the past year, Commonwealth Edison completed an extensive refunding operation, the result of which was to weld the company and its various subsidiaries into one integrated system with unified financial control. It also placed the company in a more advantageous position to acquire funds, when needed, for expansion purposes, by reducing the proportion of total capital represented by funded debt and preferred stock and increasing the common stock equity.

Earnings last year were estimated as having been equivalent to $2.45 a share, or practically the same as earned in 1937, based on the number of shares now outstanding. Had the financing which was effected during 1938 been completed at the beginning of the year, per-share earnings for the common stock would have equalled approximately $2.60 a share, reflecting an important savings in interest charges. Included in the company's financing last year were substantial amounts of debentures, convertible into the common stock at $25 a share. However, even if all of the debentures issued during the past year had been converted into the common stock, per-share earnings would still have been about $2 a share. Last year dividends were raised from $1.25 to $1.60 annually, a move amply justified by earnings.

Aside from the company's impressive record, psychologically, investment sentiment toward public utility companies has been improving over the past several months, a trend which in part was due to the growing belief that the Government will cease its punitive attacks against the public utility industry. To a greater extent, however, it appears that the exceptionally good operating record of the public utility operating companies, through good times and bad, is finding belated but increasing favor with the investing public.

Recently quoted around 28, the common stock of Commonwealth Edison affords a yield of better than 5 per cent and combines good investment value with possibilities for gradual price appreciation.

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U. S. Rubber Co.

Owning 100 shares of U. S. Rubber, common, bought at 67⅛, I would like your opinion of the price appreciation possibilities of this stock. Can further improvement be expected from 1939 automobile tire production; also from the company's line of rubber specialties? What are the dividend prospects?—H. T., Hartford, Conn.

Elimination of many obsolete plants and installation of modern equipment by U. S. Rubber Co. has placed that company in a position to widen profit margins over coming months. Moreover, financial position of the concern has been materially strengthened, official estimates placing the cash balance at the end of 1938 in the neighborhood of $15,000,000. Since 1928, consolidated funded indebtedness has been reduced, from around $130,000,000 to $44,970,000 as December 31, 1938. Last year the company called all of the outstanding First and refunding 5% bonds due 1947, obtaining the necessary funds by the sale of $45,000,000 4½% mortgage bonds. This financial operation not only resulted in an important saving in interest charges, but removed the indenture restriction which stood in the way of resumption of preferred dividends. In addition to the outstanding 4½% bonds mentioned above, there are 651,091 shares of $8 noncallable non-cumulative preferred and 1,567,261 shares of common stock. It is estimated, however, that a net income of around $5,200,000 was recorded for the entire year of 1938. It is doubtful, however, if this profit will be more than enough to cover the $8 preferred dividend, thus leaving nothing for the common issue. It is interesting to point out, however, that in the last six months of last year, the entire recovery took place inasmuch as a net loss was shown for the first six months to the extent of $239,213. The possibility of continued profits is good. Crude rubber prices have advanced to a point where large inventory write-offs will not be necessary; demand for tires has expanded considerably, aided both by increased replacement sales and substantially larger takings by the automobile industry; tire prices have been advanced and with U. S. Rubber heavily supplied with low cost inventories, higher prices should find substantial reflection in near-term earnings. Dividends on the common issue, however, will await a marked uptrend in profits. The shares, nevertheless, on a price basis, offer speculative attraction and retention of your commitment is advisable.

Radio Corp. of America

Is Radio Corp. common a likely candidate for sharp appreciation? Great emphasis has been placed on the speculative promise of this stock due to the company's progress with television. What weight can be attached to this factor? Shall I continue to hold 250 shares bought at 12¼? Is the 20 cent dividend secure?—R. W., Albany, N. Y.

There are several factors present in the Radio Corp. picture which makes us hopeful for well-sustained earnings over the coming year. Among the more important of these is the growing popularity of television. This naturally is of longer-term significance, as it is still in the development stage and revenues therefrom will for some time probably run below actual costs. However, larger equipment orders are being obtained from the government as well as from private sources. The continued pick-up in general business has brought about an increase in consumer purchasing power and hence has stimulated demand for small radios. Moreover, NBC billings during the latter part of 1938 were showing an improvement and are expected to continue to do so during the current year. It is important to note here, however, that both radio manufacturing and broadcasting are now rapidly nearing a point of saturation. It is therefore probable that future earnings of Radio Corp. will be charac-

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terized by stability rather than sharp fluctuations. It is estimated that for the year ended December 31, 1938, the company showed earnings in the neighborhood of 25 cents per common share. This will amply cover the 20 cents paid in the way of dividends for 1938. It must be remembered that the common stock outstanding is large — 13,881,016 shares as of September 30, 1938—and is also preceded by a 3½% cumulative convertible issue of preferred stock outstanding to the extent of 900,845 shares. There are also outstanding serial notes totaling $10,856,526. While we are inclined to believe that the shares in the current market are rather generously priced, we are willing to concede a measure of speculative possibility and recommend retention of your commitment on a price basis.

McKeesport Tinplate Co.

How do you regard the outlook for McKeesport Tin Plate, now that it has taken steps to overcome its production difficulties? Do the company's new plans indicate a return to more profitable operations—warranting retention of 90 shares bought at 38¼?—D. D., Detroit, Mich.

The outlook for McKeesport Tinplate Corp. is not as clearly defined as is that of most companies situated in this industry. The reason for this is because of the tendency of can makers to use cold reduced tin plate. As McKeesport does not manufacture this type of tin, it has been forced to purchase cold reduced strip from Carnegie-Illinois Steel Corp. which it finishes as cold reduced tin plate by cutting the strip, annealing and tinning. While it is thus in a position to supply its customers' requirements, it is still forced to compete with companies whose greater integration permits operations at a lower cost. It is therefore logical to assume that even if volume sales widen—is now expected — higher costs of operations will tend to restrict profit margins. No report later than the half year ended July 2, 1938, when 15 cents a share was shown, is available. It is estimated that last half year results were a trifle better than those reported above and that full year results will be in the neighborhood of 50 cents per common share. The company recently placed a debenture issue of $6,000,000 privately. These debenutres are 4% convertible 10-year sinking fund due October 1, 1948. The proceeds from the sale would be used by the company to pay off various bank loans and to use as additional working capital. The shares are primarily a longer-term medium and are likely to prove rather colorless marketwise pending more concrete evidence of improved earning power.

American Rolling Mill Co.

I am concerned about 200 shares of American Rolling Mill common which cost me 42. Would you advise holding on the assumption that the worst has been seen and the company will make a quick comeback this year? Has it maintained the strong competitive position which brought record sales and profits in 1937?—G. F., Salt Lake City, Utah.

As well as benefiting from generally better steel activity, American Rolling Mill is enjoying an increased demand from the automotive industry for sheet and strip steel. Moreover, demand from miscellaneous sources has also increased. This upward trend of volume business, however, was not sufficient enough to restore profitable operations. Hence, for the nine months ended September 30, 1938, a loss of 98 cents a share was registered by Armco as against a profit of $3.09 a share in the like interval a year earlier. Moreover, while the betterment undoubtedly continued during the last quarter, deficit operations for the full 1938 year were undoubtedly shown. Looking ahead, we can readily believe, that it will not be long before the company is enjoying operations in the black. The outlook is for sustained improvement in the automobile industry and also in the building field. As these are the two largest users of American Rolling Mill's products, the benefit to be derived is quite plain. Over a long period of years, American Rolling Mill has continually added to its production facilities as well as carrying on a research for new products and improvement of its machinery. Moreover, the company boasts that in the thirty-odd years of its career, it has never lost a pound of production, or its men a dollar of wages as a result of labor troubles. The common issue is naturally devoid of income possibilities because of the arrears outstanding on the preferred. Given any sustained improvement in business in general, however, we do not think that these back dividends should constitute much of a problem. In any event, the common issue appears to be well deflated in view of the longer-term possibilities and retention of your holdings on a price basis is advisable.

Consolidated Edison Co. of New York

I hold 100 Consolidated Edison bought at 47¼. With kilowatt production exceeding 1937 levels and steady earnings improvement reported, would you say that near-term expectations for considerable enhancement in price and dividends are in order? Will this year's earnings receive a decided lift from the New York World's Fair—D. W. B., Kalamazoo, Mich.

Consolidated Edison Co. is one of the few major utility companies to maintain an unbroken dividend record all through the depression. Earnings for 1938 of $2.25 a common share were slightly larger than the $2.17 a share earned in 1937. This ability to show satisfactory profits may in a large part be attributed to the territory served. The company operates in a thickly populated compact area and has not suffered many of the adversities which have been nagging utilities in general for the past few years. At current levels, the common stock affords the holder with a yield of little better than 6%. Moreover, a strong financial position is maintained and thus assurance to a certain measure is given that the present rate will continue. Moreover, the company operates on an intra-state basis and is therefore not subjected to extensive governmental competition which quickly tends to eat up profits. There is nothing in the future outlook to lessen the belief that the subject shares will not continue to afford good income and possibly a fair measure of price recovery. The company is in a position to obtain substantial benefits from the coming New York World's Fair and also from larger kilowatt production as a result of increases in consumer purchasing power. Moreover, the government's more lenient attitude toward utilities augurs well for longer-term psychological attitude toward utilities. In view of the constructive forces present, we believe that

retention of your commitment for the longer-term potentialities is definitely advisable.

Beatrice Creamery Co.

In view of the reports indicating well-stabilized 1938 earnings for Beatrice Creamery, as well as the gradually rising trend of consumer purchasing power, do your analysts believe that this stock, bought at 28⅛ is headed for higher market levels? Is retention definitely advisable?—L. G., St. Paul, Minn.

The earnings outlook of Beatrice Creamery is for continued stability even though some divisions are suffering from reduced consumption. A sharp improvement in profits was recorded for the quarter ended November 30, 1938, due in no small part to an upswing in butter prices late in the last month of that quarter. During the period mentioned above, profits of 73 cents per share were shown against only 42 cents per share in the like three months a year earlier. In fact, for the nine months ended November 30, 1938, profits were $2.46 per share, or only slightly under the $2.54 per share registered in the initial three quarters of the previous fiscal term. The company, a leading distributor of butter, has at this time relatively high storage holdings of that commodity. Thus, the uncertain outlook for sales of butter does not augur well for that division, although it is possible that satisfactory prices for butter will continue. It is interesting to point out that approximately half of the stocks of butter are held by Government agencies and thus earnings revenues from this source depend directly upon Government support programs. Some time ago, stockholders of the company ratified an amendment whereby the company can engage in the distribution of unallied food lines, such as sale of powder and by-products of milk. Revenues from this source may be satisfactory as soon as they have been well developed. Beatrice is very simply capitalized, there being outstanding only 93,617 shares of 5% cumulative no par preferred and 378,040 shares of common stock. No funded debt precedes the issues. Although the butter and egg division of the company is unsettled, milk and ice cream sales should improve due to satisfactory increases in consumer purchasing power. In any event, we believe the latter will more than offset the former and enable Beatrice to record profits substantial enough to justify a continuation of the liberal dividend. Therefore, on an income basis solely, we are counselling full retention of your commitment.

Douglas Aircraft, Inc.

Would you advise holding 50 shares of Douglas Aircraft, common, bought at 72⅜ for appreciation as well as income? Will this company benefit substantially under the proposed National Defense Budget which, I understand, will require airplane makers to reach new high output levels during the next 17 months?—W. Y., Chicago, Ill.

Douglas Aircraft manufactures a varied line of planes. By virtue of this fact it is in an excellent position to obtain a large share of new orders which will be awarded, particularly by the United States military forces. As of October 20, 1938, unfilled orders carried on the company's books totalled $25,638,330. This alone would assure capacity operations during 1939 even though no new orders were obtained. Although private demand will be small, the newly-developed DC-5, a sixteen-passenger, twin-engine transport, will probably command wide attention from air transport companies. The latest report available for Douglas is for the nine months ended August 31, 1938, when $3.19 per common share was registered against only $1.49 a share a year earlier. A simple capitalization—there being outstanding only 570,683 shares of common stock—plus an extremely strong financial position, has enabled the company to pass on in the way of dividends, the larger part of earnings.

Notwithstanding the fact that there are many companies now in this industry which obtain substantial orders from the government, Douglas is expected to continue to register record sales for some time to come. This fact has been made possible by the constant research and improvement of its products. The management has been far-sighted enough also to realize the need for facilities to turn out a large number of planes. This has been accomplished by re-investment of earnings and prudent sale of equity shares. Although profit margins may be restricted on Government orders, substantial earnings are still anticipated. While it can be reasoned that the shares in today's market are selling at a high level, we do believe that as a longer-term holding, the capital stock of Douglas will prove worthy of consideration.

American Radiator & Standard Sanitary

Isn't American Radiator, common, considerably under-valued at its present price of 16¾, in view of accelerated building activity and modernization in which the products of company play an important part? I hold 60 shares of this stock bought at 28¾. Would you advise averaging?—M. G., San Francisco, Calif.

Operations of American Radiator & Standard Sanitary during the fourth quarter of 1938 were undoubtedly contrary to usual seasonal pattern, because of the large orders placed with the company which were due to be delivered during that period. Due to this fact, profits for the quarter ended December 31, 1938, were probably the best of any like interval during the entire year and placed operations on a profitable basis when broken down to common share earnings. For the nine months ended September 30, 1938, a loss of 2 cents a common share was recorded. This, in retrospect, is only a temporary situation and we believe that the coming months will see a continuation of the high rate of operations which prevailed during the latter part of last year. Of course, activity has been increasing in the building trade for quite some time. It is known, however, that demand for radiators and plumbing equipment—two of the most popular products of the subject company—lags behind that for other building materials. Hence, American Radiator is just now beginning to feel the effects of increased construction activity. Given any further expansion of this industry, sales promise to increase accordingly. Moreover, the company will now benefit from large-scale production which keeps costs down and allows a wider margin of profit. Financial position of the company is strong. The shares at present prices have not, in our estimation, taken fully into consideration the favorable factors. There-

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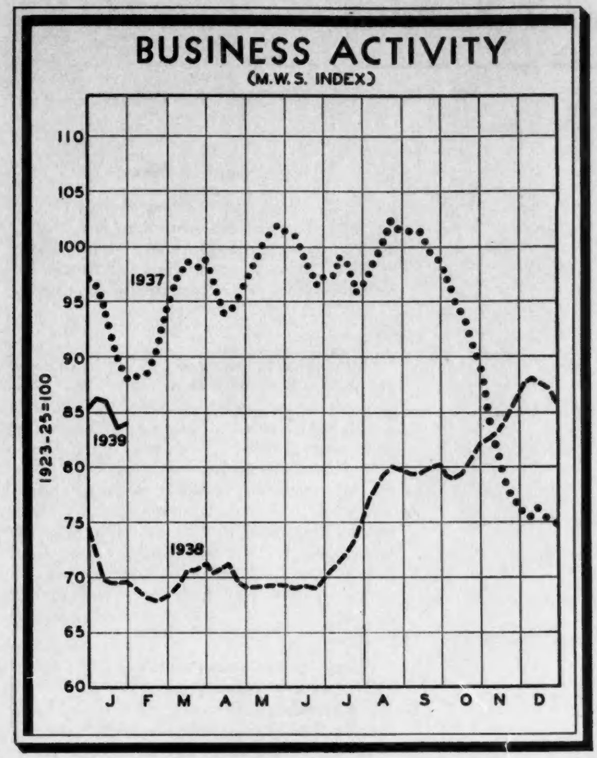

CONCLUSIONS

INDUSTRY—Prompt upturn due, barring adverse weather and unfavorable foreign developments.

TRADE—Retail trade above last year in unit quantities.

COMMODITIES—Prices mixed within narrow range.

MONEY AND CREDIT—New financing due for temporary lull.

The Business Analyst

Were it not for the ever-present possibility of further disturbing developments abroad, it could be asserted with considerable confidence that the recent fractional upturn in our index of per capita **Business Activity** marks the end of a brief and very mild recession and the beginning of slow improvement which should lift production this year to new heights for the present recovery. Building operations continue to expand at a gratifying rate, retail sales of automobiles are holding up remarkably well for this season of the year, banking reserves are superabundant, high grade bonds are firming up despite the recent war-scare dip in stocks of a more speculative character, unit labor costs of production are being reduced rapidly (as evidenced by surprisingly good fourth quarter earnings), and inventories (except in a few special situations) are comparatively low.

* * *

New Capital raised through flotation of securities, corporate and public, amounted to 4,892 millions last year, compared with 4,405 millions in 1937 and 5,403 millions in 1936. Of this total, flotations by private corporations accounted for 854 millions last year, against 1,227 millions in 1937 and 1,192 millions in 1936. Insofar as the aggregate amount of new capital raised during 1936 may have contributed to

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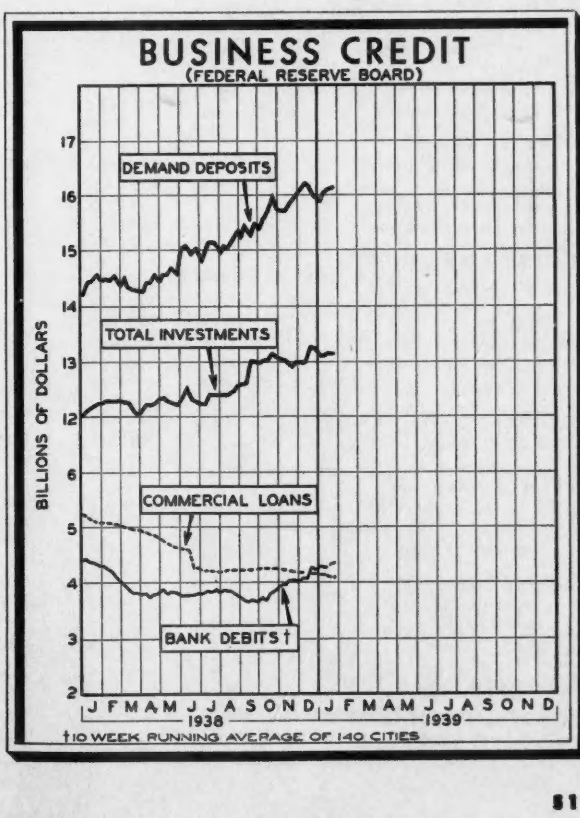

Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Dec.	104	103	84
INDEX OF PRODUCTION AND TRADE (b)	Dec.	86	85	79
Production	Dec.	84	83	74
Durable Goods	Dec.	72	71	54
Non-durable Goods	Dec.	93	92	86
Primary Distribution	Dec.	80	77	80
Distribution to Consumers	Dec.	96	94	89
Miscellaneous Services	Dec.	83	81	87
WHOLESALE PRICES (h)	Dec.	77.0	77.5	81.7
COST OF LIVING (d)				
All Items	Dec.	85.8	85.6	88.6
Food	Dec.	80.3	79.5	84.4
Housing	Dec.	86.2	86.4	88.7
Clothing	Dec.	73.0	73.2	77.7
Fuel and Light	Dec.	86.0	85.9	86.1
Sundries	Dec.	96.8	96.8	97.8
Purchasing Value of Dollar	Dec.	116.6	116.8	112.9
NATIONAL INCOME (cm)†	Dec.	5,945	5,296	6,454
CASH FARM INCOME†				
Farm Marketing	1938	$7,150	......	$8,208
Gov't Payments	1938	482	......	367
Total Income	1938	7,632(pl)	......	8,574
Prices Received by Farmers (ee)	Dec.	96	94	104
Prices Paid by Farmers (ee)	Dec.	120	121	126
Ratio: Received to Paid (ee)	Dec.	80	78	83
FACTORY EMPLOYMENT (f)				
Durable Goods	Dec.	83.3	81.4	91.9
Non-durable Goods	Dec.	99.3	98.2	98.1
FACTORY PAYROLLS (f) (not adjusted)	Dec.	86.6	84.1	84.2
RETAIL TRADE				
Department Store Sales (f)	Dec.	89	89	89
Chain Store Sales (g)	Dec.	112.0	109.5	111.5
Variety Store Sales (g)	Dec.	122.0	115.4	121.0
Rural Retail Sales (j)	Dec.	129.3	119.7	126.4
Retail Prices (s) as of	Jan. 1	88.9	88.9	93.2
FOREIGN TRADE				
Merchandise Exports†	Dec.	$268.8	$252.2	$323.4
Cumulative year's total†	1938	3,094.1	......	3,349.2
Merchandise Imports†	Dec.	171.5	176.2	208.8
Cumulative year's total†	1938	1,960.5	......	3,083.7
RAILROAD EARNINGS				
Total Operating Revenues★	1938	$3,565,491	......	$4,166,069
Total Operating Expenditures★	1938	2,722,229	......	3,119,065
Taxes★	1938	340,780	......	325,665
Net Rwy. Operating Income★	1938	372,846	......	590,204
Operating Ratio %	1938	76.35	......	74.87
Rate of Return %	1938	1.43	......	2.27
BUILDING Contract Awards (k)	Dec.	$389.4	$301.7	$209.5
Publicly Financed†	Dec.	279.4	178.9	115.1
Privately Financed†	Dec.	110.0	122.8	94.4
F. H. A. Mortgages				
Selected for Appraisal†	1938	76.9	......	32.3
Accepted for Insurance†	1938	51.1	......	27.8
Premium Paying†	1938	56.3	......	37.2
Building Permits (c)				
214 Cities†	Dec.	$67.3	$67.5	$43.9
New York City†	Dec.	22.3	22.2	74.8
Total, U. S.†	Dec.	89.6	89.7	118.7
Engineering Contracts (En)†	Jan.	$311.7	$339.3	$190.2
CONSTRUCTION COST INDEX (En) 1913—100	Feb. 1	234.31	234.72	238.99

PRESENT POSITION AND OUTLOOK

(Continued from page 513)

prosperity during the first nine months of 1937, it would seem that the sum raised last year may lead this year to better average conditions than in 1938, but not so good as in 1937; though other factors doubtless enter into the equation.

* * *

National income paid out during December was 7.5% below the like month of 1937, which accounts for the lagging recovery in Bank Debits and in **retail sales.** For all of 1938 the total came to 64.2 billions, a decrease from 1937 of only 7%. Salaries and wages (government and private) amounted to 42.1 millions—also 7% below 1937. **Farm income** (including **benefit payments,** which totaled 482 millions for 1938 against only 367 millions in 1937) during December was only 4.5% below the like month of 1937, compared with an 11% decline for all of 1938.

* * *

Comparing December with the like month of 1937, **factory employment** was down 3.7%; but **payrolls** were up 2.9%; while Factory Weekly Real Wages advanced 10%, owing to a recession of 3.2% in the **cost of living.** December Employment in the production of **nondurable goods** was 1.4% greater than for the like month of 1937; but the highly mechanized **durable goods** field showed a 9.2% drop in Employment, despite a large percentage increase in production. **Raw Material prices** at present average 1% lower than a year ago. **Wholesale** and **retail prices** are off 5%. **Department stores sales** during the week ended Jan. 21 were even with last year in total dollars; but gained about 5% in unit quantity. Merchandise **exports** plus **imports** during December were 17% below the like month of 1937, against a decline of 21% for the 1938 calendar year. Excess exports of 1,134 millions during 1938 were the largest since 1921, and compared with only 265 millions in 1937.

* * *

With **carloading** running currently about 4% above last year, the **railroads** converted a December gain of 5% in gross revenues into an 84% increase in n. o. i. over the like month of 1937. This lifted n. o. i. for 1938 to $372,846,000, compared with $590,204,000 in 1937 and $667,000,000 in 1936. Congress is proceeding with aggravating leisure in formulating remedial legislation to help solve the railroad problem; but is expected to take some action at the present session.

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Owing to a sharp drop in New York City, **building permits** granted during December were 6% below the like month of 1937, against a 3% increase for 1938. Cities outside of New York reported a 58% increase, against a gain of only 1.5% for the full year. The large discrepancy is accounted for by the circumstance that a new building code for New York City, which became effective in the latter part of January, 1938, prompted a sharp bulge in applications during December, 1937.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Dec.	3,143	3,572	1,473
Pig Iron Production in tons★	Dec.	2,202	2,270	1,490
Shipments, U. S. Steel in tons★	Dec.	694	680	489
AUTOMOBILES				
Production				
Cars and Trucks, U. S. & Canada	Dec.	407,016	390,350	347,349
Total	1938	2,655,777	......	5,016,437
Retail Sales				
Passenger Cars, U. S. (p)	1938	1,891,021	......	3,483,752
Trucks, U. S. (p)	1938	365,349	......	618,249
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Dec.	285.6	323.7	372.6
Shipments, U. S. & Canada★ (tons)	Dec.	303.4	340.7	394.5
Stocks, U. S. & Canada★ (tons)	Dec. 31	180.0	197.9	59.2
LIQUOR (Whisky)				
Production, Gals.★	Dec.	10,780	10,562	10,044
Withdrawn, Gals.★	Dec.	7,693	9,571	6,790
Stocks, Gals.★	Dec.	466,809	466,176	452,399
GENERAL				
Machine Tool Orders (n)	Dec.	146.5	112.2	142.7
Railway Equipment Orders (Ry)				
Locomotive	Jan.	8	28	9
Freight Cars	Jan.	3	3,670	25
Passenger Cars	Jan.	47	None	None
Cigarette Production†	Dec.	12,656	13,506	12,611
Bituminous Coal Production★ (tons)	Dec.	36,230	36,110	37,122
Boot and Shoe Production Prs.★	Nov.	29,743	34,872	21,290
Portland Cement Shipments★	Dec.	6,281	8,573	4,793
Commercial Failures (c)	.....	......	......	......

PRESENT POSITION AND OUTLOOK

Retail deliveries of **automobiles** during the first 20 days of January were 38% above the like period a year earlier, and declined from December less than seasonally. Assemblies for January are now estimated at 355,000 units, which would be 55% above last year. The larger increase in production as compared with retail sales was for building up dealer stocks to meet the usual Spring rise in demand. The industry hopes, with fingers crossed, to escape trouble from the jurisdictional battle among U. A. W. officers.

* * *

Cigarette deliveries during December were a shade larger than for the like month of 1937; but the full year topped 1937 by nearly 1% and, making the sixth consecutive yearly increase, established a new high record. **Whisky** production in December was 7.3% above the like month of 1937, against a six-months' decline of 51%. Year-end inventories were up 3%.

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New **freight cars** on order as of Dec. 31 totaled 5,080 compared with 7,947 a year earlier. New **locomotives** on order numbered 71, against 161 as of Dec. 31, 1937. **Bituminous coal** output from April 1 (beginning of the coal year) to date has been 15.1% lower than for the like period a year earlier.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Jan. 28	83.9	83.6	69.5
ELEC. POWER OUTPUT K.W.H.†	Jan. 28	2,293	2,290	2,099
CARLOADINGS				
Total	Jan. 28	594,379	590,359	553,176
Grain	Jan. 28	32,202	33,029	31,611
Coal	Jan. 28	140,646	131,383	129,770
Forest Products	Jan. 28	27,935	27,240	24,759
Manufacturing & Miscellaneous	Jan. 28	218,397	221,655	198,910
L. C. L. Mdse	Jan. 28	146,428	146,586	142,180
STEEL PRICES				
Pig Iron $ per ton (m)	Jan. 31	20.61	20.61	23.25
Scrap $ per ton (m)	Jan. 31	14.875	15.00	14.00
Finished c per lb. (m)	Jan' 31	2.286	2.286	2.512
STEEL OPERATIONS				
% of Capacity week ended (m)	Feb. 4	53.5	52.0	30.5
CAPITAL GOODS ACTIVITY (m) week ended	Jan. 28	81.5	83.4	57.4
PETROLEUM				
Average Daily Production bbls.★	Jan. 28	3,248	3,264	3,358
Crude Runs to Stills Avge. bbls.★	Jan. 28	3,235	3,310	3,158
Total Gasoline Stocks bbls.★	Jan. 28	77,279	75,455	85,013
Gas and Fuel Oil Stocks bbls.★	Jan. 28	139,349	141,091	120,288
Crude—Mid-Cont. $ per bbl	Feb. 4	1.02	1.02	1.27
Gasoline—Refinery $ per gal	Feb. 4	.05⅞	.05⅞	.06⅞

PRESENT POSITION AND OUTLOOK

Although **electric power output** is about holding its own on a seasonally adjusted basis, the margin of improvement over last year has widened to more than 9%; since comparisons now are with a receding trend in 1937. Stock markets took the TVA decision philosophically, believing that it marked the end of the legal phases of TVA.

* * *

Steel operations, though currently about 65% above last year, are also about holding their own on a seasonally adjusted basis. Rail orders during the first 24 days of January totaled 250,000 tons, against 66,000 for the like period of 1938, and are expected to reach a million tons before Dec. 31, or 50% above last year. Most steel companies are expected to be in the black for the current quarter.

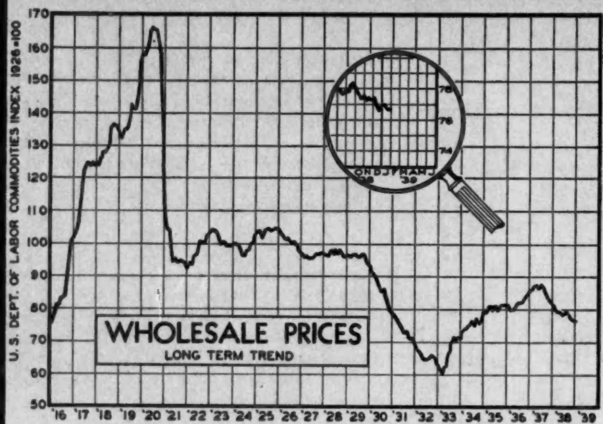
* * *

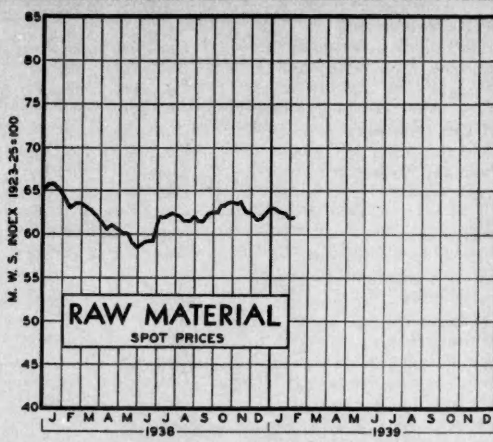
Although domestic consumption of **motor fuel** has been running for several months at about 5% above the like period a year earlier, it should be noted that total demand, including exports is up 8% to 10%. While stocks of **crude oil** are 5% below last year, and **gasoline** inventories down 10%, inventories of gasoline increased 6,000,000 barrels in January, an abnormal gain for the season. To preserve inventory's statistical balance, refinery runs should be curtailed.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age.

Trend of Commodities

The pressure of speculative liquidation and frightened selling of commodities eased up during the past week and markets presented a more normal aspect. Less political tension abroad has again focused attention on the domestic business prospect. Granting that the tempo of business recovery has slowed down somewhat there has been nothing to suggest that this will be anything more than a belated seasonal reaction in the wake of the rapid upturn in activity in the closing weeks of last year. At the same time, it must also be admitted that there is nothing in the prospect which would warrant any urgency in the acquisition of raw materials and inventories beyond more immediate requirements. The basis for any appreciable upturn in commodity prices does not exist at the present time. For a more detailed discussion of the commodity prospect, the reader is referred to page 482.





Changes in Major Commodity Price Groups for the Fortnight Ended January 28, 1939

Farm Products	67.3	no change	Metals	94.5	down 0.1
Foods	71.2	down 0.1	Building Material	89.4	down 0.3
Hides and Leather	93.3	down 0.8	Chemical	76.1	down 0.3
Textiles	65.6	up 0.3	Housefurnishings	87.2	no change
Fuel and Lighting	73.4	down 0.3	Miscellaneous	73.0	down 0.1

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Feb. 4	8.46	8.40	8.50
May	Feb. 4	8.17	8.10	8.58
Spot	Feb. 4	9.06	9.00	8.60
(In bales 000's)				
Visible Supply, World	Feb. 3	9,247	9,361	9,183
Takings, World, wk. end	Feb. 3	347	341	418
Total Takings, season Aug. 1 to	Feb. 3	9,622	9,275	9,985
Consumption, U. S.	Dec.	565	596	432
Exports, wk. end	Feb. 3	67	61	148
Total Exports, season Aug. 1 to	Feb.	2,221	2,154	3,941
Government Crop Est. (final)	1938	12,008	......	18,946
Active Spindles (000's)	Dec.	22,445	22,449	22,337
WHEAT				
Price cents per bu. Chi. closing				
May	Feb. 4	68½	69¾	95⅛
July	Feb. 4	68⅝	69⅝	90⅞
Exports bu. (000's) since July 1 to	Jan. 28	91,879	90,136	81,533
Exports bu. (000's) wk. end	Jan. 28	1,743	2,327	1,771
Visible Supply bu. (000s) as of	Jan. 28	100,748	103,134	72,325
Gov't Crop Est. bu. (000's)	1938	930,801	......	873,993
CORN				
Price cents per bu. Chi. closing				
May	Feb. 4	49⅞	51⅛	59½
July	Feb. 4	51	52¼	60⅜
Exports bu. (000's) since July 1 to	Jan. 28	59,113	58,506	19,071
Visible Supply bu. (000's) as of	Jan. 28	47,944	47,057	39,174
Gov't Crop Est. bu. (000's)	1938	2,480,958	......	2,644,995

PRESENT POSITION AND OUTLOOK

Cotton. Cotton exports in the 1938-39 season may be the smallest since the beginning of the century. Yet world consumption of all cotton in the first five months of the current crop year is running at a rate larger than in any comparable period, with but two exceptions. World consumption of American cotton, however, is slightly ahead of last year, only because domestic consumption has offset the decline in foreign demand. More cotton continues to be offered to the Government loan than is going into consumption. Prices likely to hold in a narrow range.

* * *

Wheat. Price range continues narrow with a fairly firm undertone. Some talk is being heard of a possible wheat cartel, which would include all of the leading wheat growing countries except Russia. Several months ago any thought of a cartel would have seemed ridiculous but the success attending the efforts of Secretary Wallace to subsidize exports has perhaps made other exporting nations more willing to talk cartel.

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Corn. Despite bullish reports from Argentina, professional sentiment is largely bearish on corn prices. Official Argentine reports on corn seedings contradicted all previous expectations and indicated one of the smallest crops in years. If such proves to be the case, the domestic export prospect would be materially improved.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Feb. 4	11.25	11.25	10.00
Export c. i. f.	Feb. 4	10.15	10.05	9.785
Refined Prod., Domestic (tons)	Dec.	67,947	66,746	60,463
Refined Del., Domestic (tons)	Dec.	38,853	51,297	18,660
Refined Stocks, Domestic (tons)	Dec.	289,755	269,488	259,351
Refined Prod., World (tons)	Dec.	189,801	177,810	179,872
Refined Del., World (tons)	Dec.	157,170	177,984	121,966
Refined Stocks, World (tons)	Dec.	457,168	424,537	471,195
TIN				
Price cents per lb., N. Y.	Feb. 4	45.875	46.0	40.50
Tin Plate, price $ per box	Feb. 4	5.35	5.35	5.00
World Visible Supply† as of	Jan. 31	23,216	21,958	18,965
U. S. Deliveries†	Jan.	4,330	3,400	5,550
U. S. Visible Supply† as of	Dec. 31	5,157	5,060	6,385
LEAD				
Price cents per lb., N. Y.	Feb. 4	4.85	4.75	4.90
U. S. Production (tons)	Dec.	34,683	39,800	49,581
U. S. Shipments (tons)	Dec.	33,908	42,032	34,020
Stocks (tons) U. S., as of	Dec. 31	115,902	115,236	129,131
ZINC				
Price cents per lb., St. Louis	Feb. 4	4.50	4.50	5.00
U. S. Production (tons)	Dec.	44,825	40,343	51,787
U. S. Shipments (tons)	Dec.	38,999	43,693	29,545
Stocks (tons) U. S., as of	Dec.	126,604	120,778	64,776
SILK				
Price $ per lb. Japan xx crack	Feb. 4	2.02½	1.94	1.56
Mill Dels. U. S. (bales), season to	Jan. 31	263,191	......	221,776
Visible Stocks N. Y. (bales) as of	Jan. 31	48,554	53,278	48,678
RAYON (Yarn)				
Price cents per lb	Feb. 4	51.0	51.0	54.0
Consumption (a)	Dec.	26.2	21.7	9.1
Stocks (a) as of	Dec. 31	39.5	40.0	56.8
WOOL				
Price cents per lb. tops, N. Y.	Feb. 4	87.0	85.5	82.0
HIDES				
Price cents per lb. No. 1 Packer	Feb. 4	10.0	10.0	9.0
Visible Stocks (000's) (b) as of	Nov. 30	13,744	13,440	15,194
No. of Mos. Supply as of	Nov. 30	8.3	7.7	10.8
RUBBER				
Price cents per lb	Feb. 4	15.85	15.38	14.38
Imports, U. S.†	Dec.	36,977	31,054	68,305
Consumption, U. S.†	Dec.	45,315	46,169	29,195
Stocks, U. S. as of	Dec.	245,413	254,196	262,204
Tire Production (000's)	Dec.	4,679	4,117	2,852
Tire Shipments (000's)	Dec.	4,171	4,442	3,044
Tire Inventory (000's) as of	Dec.	8,498	7,924	10,383
COCOA				
Price cents per lb. Mar.	Feb. 4	4.54	4.33	5.49
Imports (thousand lbs.)	Nov.	20,003	27,141	39,061
Warehouse Stocks (lbs.)	Feb. 3	995,084	995,619	581,942
COFFEE				
Price cents per lb. (c)	Feb. 4	7½-8	7½-8	8¾
Imports, season to	Dec. 31	6,915	......	5,238
U. S. Visible Supply (bags 000's)	Jan. 1	1,558	1,522	1,209
SUGAR				
Price cents per lb. Mar.				
Duty free delivered	Feb. 4	2.75	2.78	3.16
Refined (Immediate Shipment)	Feb. 4	4.25-4.30	4.25-4.30	4.75
U. S. Deliveries (000's)*	1938	6,619	......	6,670
U. S. Stocks (000's)* as of	Dec. 31	533	......	529

(a)—Million pounds. (c)—Santos No. 4 N. Y. (f)—Refiners' stocks of raw and refined. †—Long tons. *—Short tons.

PRESENT POSITION AND OUTLOOK

Copper. Firmer prices abroad have raised hopes that producers may be successful in avoiding a cut in domestic prices. Domestic sales in January totaled 15,507 tons, comparing with 15,080 tons in December. Fabricators' supplies are reported to be equal to only six weeks' requirements and any signs of renewed business recovery might lead to sizable buying orders. Kennecott and Anaconda have both shut down some of their domestic production.

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Tin. Prices have held well in the face of latest statistics disclosing visible stocks at the highest level in five years. More than a third of the supplies, however, are held by the Buffer Pool and consumption should shortly reflect the normal seasonal impetus.

* * *

Lead. Prices were advanced $2 a ton during the past fortnight and buying has been active. However, it is estimated that not more than 50% of February requirements have been filled.

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Zinc. Recent demand has been fairly active reflecting sustained galvanizing operations. Prices should hold unless renewed weakness breaks out in London metal markets.

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Silk. January consumption figures were surprisingly good. Domestic deliveries totaled 40,816 bales, comparing with 35,204 in December and 30,715 bales a year ago. Prices have risen but further increases would carry the threat of losses to rayon competition.

* * *

Wool. The seasonal let-down in woolen mill activity may be less than normal, under the sustaining effect of active demand to replace retail stocks and supply women's wear business.

* * *

Rayon. Consumption of rayon again established a new high record last year. Outlook is promising and bookings assure an active first quarter.

* * *

Hides. Stocks at the end of December showed a small increase for the third successive month, but total visibles at the beginning of the year were about 1,350,000 hides smaller than a year ago. Hides have a large speculative following and prices frequently move with the stock market.

* * *

Rubber. International Rubber Regulation Committee is scheduled to meet on Feb. 14, and there is a chance that the exportable allowance may be increased to 55% of basic quotas. Present indications are that demand will be able to absorb the additional 5% without interrupting the improving statistical trend.

* * *

Cocoa. Trading interest showed a marked revival during the past week and Feb. 3 was the most active day since early last August. Statistical position is good and increased interest on the part of processors would seem to suggest that present prices are favorable buying levels.

* * *

Sugar. Hopes that the 1939 quotas might be modified have been virtually abandoned. Prices have reacted accordingly, while uncertainty over the Cuban tariff adjustment has exerted additional pressure on the price structure.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Feb. 4	1¼%	1¼%	1¼%
Prime Commercial Paper	Feb. 4	⅝-1%	⅝-1%	1%
Call Money	Feb. 4	1%	1%	1%
Re-discount Rate, N. Y.	Feb. 4	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Jan. 21	2,415	2,463	2,357
Cumulative year's total to	Jan. 21	7,367	......	7,606
Bank Clearings, N. Y.	Jan. 21	3,437	3,596	3,371
Cumulative year's total to	Jan. 21	10,852	......	10,628
F. R. Member Banks				
Loans and Investments	Jan. 25	21,428	21,440	21,275
Commercial, Agr., Ind. Loans	Jan. 25	3,765	3,789	4,395
Brokers Loans	Jan. 25	835	826	806
Invest. in U. S. Gov'ts	Jan. 25	8,186	3,183	8,176
Invest. in Gov't Gtd. Securities	Jan. 25	1,733	1,732	1,139
Other Securities	Jan. 25	3,228	3,235	2,922
Demand Deposits	Jan. 25	16,152	16,124	14,583
Time Deposits	Jan. 25	5,179	5,174	5,213
New York City Member Banks				
Total Loans and Invest.	Feb. 1	7,587	7,589	7,823
Comm'l Ind. and Agr. Loans	Feb. 1	1,356	1,354	1,703
Brokers Loans	Feb. 1	642	681	611
Invest. U. S. Gov'ts	Feb. 1	2,648	2,670	3,123
Invest. in Gov't Gtd. Securities	Feb. 1	903	863	398
Other Securities	Feb. 1	1,135	1,110	1,017
Demand Deposits	Feb. 1	6,777	6,797	5,652
Time Deposits	Feb. 1	617	617	651
Federal Reserve Banks				
Member Bank Reserve Balance	Feb. 1	9,047	9,166	7,249
Money in Circulation	Feb. 1	6,663	6,623	6,323
Gold Stock	Feb. 1	14,694	14,640	12,755
Treasury Currency	Feb. 1	2,817	2,812	2,657
Treasury Cash	Feb. 1	2,770	2,754	1,892
Excess Reserves	Feb. 1	3,480	3,600	1,390

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	1938	$2,075.8	......	$2,437.7
New Capital	1938	854.4	......	1,227.0
Refunding	1938	1,221.4	......	1,208.7

COMMENT

The latest statement of **New York City Member Banks** revealed an increase of $2,000,000 in commercial loans, the first upturn in some weeks. On balance, however, and despite an increase of $43,000,000 in investments, loans and investments were off $2,000,000. The largest drop occurred in loans to brokers and security dealers, which were off $39,000,000. Purchases of Government guaranteed issues increased $40,000,000 and the item of other securities was $25,000,000 larger. Holdings of direct government securities have declined $233,000,000 during the past six weeks and have only been partially offset by purchases of government guaranteed issues and other securities. In the same period loans to business declined $28,000,000 and since last October commercial loans have declined $98,000,000. Banks outside of New York have suffered a proportionately smaller liquidation of commercial loans. Recently also out-of-town banks also have shown a more favorable trend in investments. Demand deposits are at the highest figure on record, with the exception of last Dec. 14, when they totaled $16,221,000,000. Contrary to the recent trend, excess reserves of all **Federal Reserve Banks** declined $120,000,000 in the latest week, largely reflecting the month-end increase of $40,000,000 in currency circulation and an increase of $120,000,000 in Treasury balances. Excess reserves will doubtless resume an upward trend shortly.

* * *

The week ended Feb. 4, was one of the most active in new capital financing in more than three months. Offerings, which included several large issues, were readily taken. Despite the ability of the market to easily absorb new issues, offerings over the next several weeks are not likely to be large.

POSITION OF FOREIGN BANKS

	Feb. 1, 1939	Feb. 2, 1938
BANK OF ENGLAND		
Circulation	£471,949,000	£476,694,000
Public Deposits	12,262,000	11,404,000
Private Deposits	145,442,000	147,974,000
Bankers Accounts	108,306,000	111,383,000
Other Accounts	37,136,000	36,591,000
Government Securities	77,901,000	98,078,000
Other Securities	42,674,000	29,151,000
Discount and Advances	21,314,000	10,479,000
Securities	21,360,000	18,672,000
Reserves	55,248,000	50,294,000
Coin and Bullion	127,197,000	326,988,000
BANK OF FRANCE	Jan. 27, 1939	Jan. 28, 1938
Gold Holdings	Fr.87,265,000,000	Fr.58,933,000,000
Credit Balances Abroad	741,000,000	16,000,000
Bills on France	6,193,000,000	11,666,000,000
Wheat Office Bills	1,996,000,000	....
Advance Against Securities	3,388,000,000	3,824,000,000
Note Circulation	109,377,000,000	92,255,000,000
Credit Current Accounts	30,380,000,000	26,409,000,000
Temp. Advs. to State	20,627,000,000	31,903,000,000
Gold on Hand to Sight Liabilities	62.44%	49.66%

COMMENT

As yet there are no indications of marked improvement in the British economic situation. For the first time in several weeks, quotations on the London Stock Exchange scored successive advances. The probabilities are, however, that security prices reflected the lifting of speculative liquidation and relief over the turn of European politics, rather than the expectation of near term business improvement. The general opinion abroad is that any worthwhile improvement will not put in an appearance before early summer.

* * *

Efforts of the French government continue to be directed toward the stimulation of production and the strengthening of internal economy. Four new decrees issued near the close of last week embody tax incentive features, granting various exemptions and allowances to corporations making capital expenditures and opening new branches. Although business sentiment in France remains skeptical and generally bearish, government measures have been in the right direction and may shortly begin to bear fruit.

POSITION OF FOREIGN BANKS—Continued

GERMAN REICHSBANK	Jan. 31, 1939	Jan. 31, 1938
Gold and Bullion	Rm.70,773,000	Rm.66,904,000
Of Which Deposits Abroad	10,572,000	18,063,000
Reserve in Foreign Currency	5,500,000	5,591,000
Bills of Exchange & Checks	7,160,100,000	4,858,062,000
Investments	889,800,000	525,129,000
Other Assets	1,654,990,000	767,703,000
Notes in Circulation	7,186,100,000	4,799,080,000
Other Daily Matured Obligations	1,118,900,000	851,448,000
Other Liabilities	426,518,000	349,754,000
Proportion of Gold & Foreign Currency to Note Circulation	0.98%	1.51%

Although German spokesmen have denied any intention on the part of the government to indulge in financial experiments, the possibility will exist so long as Germany is confronted with its present serious economic problems. This year may witness efforts to economize on public works and stimulate export trade. Most large German manufacturers have been so swamped with government orders that they have had neither the facilities nor opportunity to develop export business.

* * *

BANK OF CANADA	Feb. 1, 1939	Feb. 2, 1938
Reserve Gold, Coin & Bullion	$191,884,000	$179,757,000
Silver Bullion	....	2,992,000
Reserve in Sterl. & U. S. Dollars	44,107,000	17,066,000
Subsidiary Coin	261,000	155,000
Dom. & Prov. Gov't Short Term Securities	130,172,000	76,310,000
Other Dom. & Prov. Securities	42,055,000	90,768,000
Other Securities	....	12,201,000
Note Circulation	161,466,000	152,632,000
Deposits—Dom. Gov't	33,324,000	17,605,000
Chartered Banks	205,308,000	198,309,000
Res. to Note & Dep. Liabilities	58.48%	54.95%

Talk is being heard of plans of a number of large British manufacturers to establish plant branches in Canada, apparently as a measure of protection to forestall any interruption in armaments and other war materials should Great Britain become involved in a European war. Canada itself has substantially increased its defense budget, of which $30,000,000, or 50% of the outlay, has been alloted to aviation.

FOREIGN EXCHANGE IN DOLLAR TERMS

Quotations in cents and decimals of a cent except pound sterling which is in dollars and cents. Country and Par	Demand Feb. 3	Demand Year Ago	Cables Feb. 3	Cables Year Ago
Great Britain ($8.2397 a sov.)	4.67⅞	5.01¼	4.67⅞	5.01¼
Belgium (16.9502c a belga)	16.88¼	16.95	16.88¼	16.95
Czecho-Slovakia (3.51c a crown)	3.43	3.51⅝	3.43	3.51⅝
Denmark (45.374c a krone)	20.88½	22.38½	20.88½	22.38½
Finland (4.264c a finmark)	2.07	2.22	2.07	2.22
France (par not definite)	2.64½	3.28⅞	2.64½	3.28⅞
Germany (40.33c a mark)**	40.14½	40.39½	40.14½	40.39½
Germany (benevolent mark)	20.80	.....	20.80	.....
Germany (travel mark)	20.75	25.25	20.75	25.25
Germany (handels sperrmark)†	3.93	.....	3.93	.....
Greece (2.197c a drachma)	0.85⅞	0.92	0.86	0.92⅛
Holland (par not definite)	53.85	55.90	53.85	55.90
Hungary (29.613c a pengo) ¶	19.75	19.93	19.75	19.93
Italy (5.2634c a lira)§	5.26¼	5.26½	5.26¼	5.26½
Norway (45.374c a krone)	23.50½	25.19	23.50½	25.79
Poland (18.994c a zloty)	18.95	19.01	18.95	19.01
Rumania (1.012c a leu)	0.75	0.75	0.75	0.75
Sweden (45.374c a krona)	24.11½	25.84½	24.11½	25.84½
Switzerland (par not definite)	22.58½	23.22¼	22.58½	23.22¼
Yugoslavia (2.981c a dinar)	2.30	2.35½	2.30	2.35½
Shanghai dollars (unsettled)	16.15	29.75	16.15	29.75
Hongkong dollars (unsettled)	29.18¾	31.35	29.18¾	31.35
India (61.798c a rupee)	34.98	37.86	34.98	37.86
Japan (84.39c a yen)	27.28	29.05	27.28	29.05
Sts. Settlements (96.139c a dollar)	54.45	58.85	54.45	58.85
Argentina (71.87c a paper peso) ¶	23.00	26.50	23.00	26.50
Argentina (71.87c a paper peso)**	31.21	33.43	31.21	33.43
Brazil (20.25c a paper milreis)**	5.90	5.85	5.90	5.85
Chile (20.599c a gold peso)†	5.19	5.19	5.19	5.19
Colombia ($1.645 a gold peso)**	56.98	55.59	56.98	55.59
Mexico peso (unsettled)†	20.25	27.80	20.25	27.80
Peru (47.409c a sol)†	20.25	24.50	20.25	24.50
Uruguay ($1.751 a gold peso) ¶	38.00	45.00	38.00	45.00
Uruguay ($1.751 a gold peso)*†	61.59	65.97	61.59	65.97
Venezuela (32.67c a bolivar) ¶	31.50	30.50	31.50	30.50
Venezuela (32.67c a bolivar)**	31.63	31.62½	31.63	31.62½

COMMENT

Perhaps the most remarkable fact in the confusion of events and alarms of the past fortnight has been the contrast between action of the foreign exchange markets recently and last September. Sterling, for instance, which fell precipitately in the Munich crisis, was hardly swayed by a situation threatening the gravest danger. The French franc, menaced as the country was by specific and unacceptable demands, held up in surprising fashion. Currencies of lesser importance felt the strain, but the three principal units of exchange held to a steady relationship.

Some deeper significance might be read into the strength of sterling and the French franc; undoubtedly many will see reason here for greater hope that a return to normal conditions is approaching. Yet the action could be explained equally as convincingly on technical grounds—the obviously improved position of the control funds for defending the status quo. Whichever the accepted cause, the implications for the future are encouraging.

* * *

Timed immediately after the peak of the war scare, the action of England in revaluing her gold reserves was looked upon as strengthening her financial resources and serving at least hinted notice that she intended to be prepared to use them. The profit arising from carrying Bank of England gold at the current market price in the London market amounts to a round half billion dollars, available for Government use, and the first result is to reduce by almost the same sum the fiduciary reserve behind the note issue. Fluctuations in the price of gold in sterling will reduce or increase the "profit" now accepted.

§—Travel lira, 4.75c. †—Nominal quotations. ¶—Free rate. **—Official rate.

Security Statistics

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

1938 Indexes High	1938 Indexes Low	No. of Issues	(1925 Close—100)	1939 Indexes High	Low	Jan. 21	Jan. 28	Feb. 4
77.8	44.2	316	COMBINED AVERAGE	73.1	62.9	68.9	62.9	67.5
133.9	88.5	5	Agricultural Implements..	116.5	101.0	107.7	101.0	108.0
47.9	24.7	6	Amusements..........	43.2	35.8	30.2	35.8	39.4
92.3	43.1	15	Automobile Accessories.	92.3	75.5	86.2	75.5	83.0
14.8	7.0	12	Automobiles..........	12.8	10.7	12.0	10.7	11.7
182.7	75.2	11	Aviation (1927 Cl.—100)	182.7	150.4	157.8	150.4	161.0
16.1	8.9	3	Baking (1926 Cl.—100)..	14.1	11.7	12.9	11.7	13.9
203.3	120.2	3	Business Machines.......	183.9	160.6	171.7	160.6	168.8
177.5	111.6	9	Chemicals............	168.2	152.2	161.0	152.2	156.0
50.2	25.6	20	Construction..........	47.5	38.3	43.5	38.3	41.8
246.2	173.8	5	Containers............	242.6	205.8	222.3	205.8	214.3
129.6	60.0	9	Copper & Brass.........	118.6	94.2	106.5	94.2	103.7
28.0	21.8	2	Dairy Products..........	26.2	23.6	24.3	23.6	26.2
27.4	12.2	8	Department Stores.......	23.3	20.1	22.4	20.1	22.0
65.5	40.1	7	Drugs & Toilet Articles...	49.4	42.3	46.2	42.3	47.0
329.0	158.1	2	Finance Companies......	312.0	264.8	275.7	264.8	289.1
81.1	33.3	7	Food Brands..........	82.8	77.4	81.1	77.4	81.2
35.3	20.5	3	Food Stores...........	41.2	34.4	37.9	37.8	41.2h
72.1	36.9	4	Furniture & Floor Covering	72.1	60.0	67.1	60.0	64.8
1262.1	953.7	3	Gold Mining...........	1271.0	1204.3	1271.0h	1204.3	1243.3
32.1	21.1	6	Investment Trusts........	28.1	24.0	26.3	24.0	25.2
223.7	140.7	4	Liquor (1932 Cl.—100)..	193.1	163.5	177.6	163.5	178.0
138.0	77.6	9	Machinery............	129.0	108.1	119.9	108.1	115.1
85.8	49.1	2	Mail Order...........	83.7	76.0	79.6	76.0	81.4
56.5	36.5	4	Meat Packing..........	51.1	43.3	48.0	43.3	46.5
195.9	116.0	14	Metals, non-Ferrous.....	173.6	148.3	161.7	148.3	161.0
14.0	5.8	2	Paper...............	13.5	11.5	12.4	11.5	12.1
113.0	76.2	24	Petroleum............	100.9	89.9	96.4	89.9	93.4
65.6	38.8	18	Public Utilities..........	60.0	55.4	59.6	55.4	60.0
18.9	10.3	4	Radio (1927 Cl.—100)..	16.1	13.4	15.2	13.4	14.7
61.6	28.2	9	Railroad Equipment.....	61.6	48.0	54.8	48.0	53.2
18.6	10.6	22	Railroads.............	18.1	14.8	16.3	14.8	15.9
9.5	4.7	2	Realty...............	7.9	6.1	7.1	6.1	6.5
82.7	36.1	2	Shipbuilding...........	82.7	62.2	69.3	62.2	68.0
106.5	55.2	13	Steel & Iron...........	99.0	79.5	90.8	79.5	87.7
25.7	17.4	2	Sugar...............	20.1	16.8	18.4	16.8x	17.4
169.1	118.6	2	Sulphur..............	153.2	130.5	141.8	130.5	137.8
60.0	37.6	3	Telephone & Telegraph..	51.3	46.4	50.1	46.4	49.1
49.7	27.9	4	Textiles..............	45.0	37.6	42.5	37.6	41.1
20.6	10.0	4	Tires & Rubber.........	20.0	16.1	18.1	16.1	17.5
86.1	63.8	4	Tobacco..............	88.6	82.4	85.4	82.4	88.6h
39.8	15.6	4	Traction..............	34.5	30.8	34.4	30.8	32.3
243.3	146.0	4	Variety Stores..........	226.3	204.0	226.3	204.0	216.8
.....	.....	20	Unclassified (1938 Cl.—100)...............	100.8	89.7	97.5	89.7	95.9

x—New LOW since 1937. h—New HIGH since 1937.

DAILY INDEX OF SECURITIES

	N. Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times —50 Stocks— High	N. Y. Times —50 Stocks— Low	Sales
Monday, Jan. 23.....	71.60	141.32	29.13	101.46	98.88	1,881,120
Tuesday, Jan. 24......	71.45	141.35	29.25	100.24	98.12	1,699,700
Wednesday, Jan. 25...	71.31	140.72	28.84	99.75	98.08	903,300
Thursday, Jan. 26.....	70.77	136.42	27.93	98.30	96.06	1,535,890
Friday, Jan. 27.......	71.01	138.90	28.56	98.37	96.44	1,054,830
Saturday, Jan. 28......	70.97	138.79	28.49	98.50	97.46	582,530
Monday, Jan. 30.....	71.11	141.56	29.37	99.58	97.77	790,220
Tuesday, Jan. 31......	71.57	143.76	29.74	101.50	100.19	1,123,190
Wednesday, Feb. 1....	71.66	142.43	29.38	100.80	99.91	581,290
Thursday, Feb. 2......	71.91	144.34	30.20	101.83	100.45	698,980
Friday, Feb. 3........	71.98	143.55	29.98	101.71	100.84	543,270
Saturday, Feb. 4......	72.14	145.07	30.38	102.48	101.53	486,160

STOCK MARKET VOLUME

Week Ended Feb. 4	Week Ended Jan. 28	Week Ended Jan. 21
4,223,740	7,657,370	4,402,160
Total Transactions Year to Feb. 4	Same Date 1938	Same Date 1937
27,496,110	27,760,841	73,077,226

COMMENTS

After declining 13.7% during the four week period beginning Jan. 1, on a somewhat nebulous war scare, the market recession ended, for the time being at least, during the week of Jan. 28 at the lowest level since Sept. 24; but 7.7 points above the pre-Munich low of Sept. 17. The four-weeks' decline in our daily index of 40 industrials amounted to 14.2%. During the pre-Munich decline our weekly average of over 300 active common stocks fell 22.1% over a period of eight weeks. Thus the recent war-scare recession was neither so severe nor of such long duration as the pre-Munich drop. During the week ended Feb. 4, our weekly index recovered 45% of its four weeks' recession, to a level 1.4 point short of the Jan. 21 bench mark.

* * *

At the bottom of the recent recession, several groups displayed long term technical strength by stopping short of their Sept. 24 bench marks. Thus, in descending order of technical strength, Dairy Products, Food Brands and Public Utilities stopped short of their Dec. 24 bench marks; Food Stores held above its Jan. 14 bench mark; Aviation stocks failed to decline as low as the Nov. 5 bench mark; Shipbuilding stopped short of the Oct. 8 level; while Railroad Equipments, Steel and Iron, Tobacco and the N. Y. Tractions stopped short of the Oct. 1 bench marks.

* * *

During the week ended Feb. 4, several groups displayed short term technical strength in recovering to a level higher than their Jan. 21 bench marks. Among these were Agricultural Implements, Aviation, Baking (owing to recently published favorable earnings reports), Dairy Products, Drugs & Toilet Articles, Finance Cos., Food Brands, Food Stores, Liquor, Mail Order, Public Utilities and Tobacco. It is important to note, from a comparison of these two lists, that the Aviation, Dairy Products, Food Brands, Food Stores, Public Utilities and Tobacco groups revealed both long and short term technical strength during the fortnight ended Feb. 4.

* * *

Groups displaying long term technical weakness by breaking through their Dec. 24 bench marks (weakest mentioned first) include Sugar (lowest since Apr. 29, 1933), Sulphur, lowest since Apr. 2, 1938; Agricultural Implements, Containers, Drugs & Toilet Articles, Investment Trusts and Radio, lowest since June 18; Department Stores, lowest since June 25; Petroleum and Textiles, lowest since Sept. 17. Among this list, Containers, Petroleum and Sugar also revealed short term technical weakness by failing to rally as sharply as the Combined Average during week ended Feb. 4.

North American Company Meets the Challenge of the Times

(Continued from page 486)

of public ownership, but the majority of voters have been against the step, and the company is assured of reasonable treatment if it should ever be taken.

Taking the system and its unconsolidated subsidiaries and investments as a whole, there is no good reason why the requirements of the Public Utility Act as to geographical integration cannot be successfully met. Exactly how it will be done is another matter, not worth speculation until the attitude of the S E C becomes clearer. The holdings in Pacific Gas may very possibly be cut down to the 10% mark. Certainly where the individual properties can be seen to be sound, to be well operated, and to have been legitimately acquired on a conservative basis, the parent company should have little to fear from the workings of the Act.

North American Co. showed in its last balance sheet (June 30, 1938) current assets of $60,397,000 and current liabilities of $30,449,000. Assets included $31,962,000 in cash and time deposits and another $1,049,000 in marketable securities. Funded debt

of the parent company amounted to $23,913,000, and of subsidiaries $314,721,000, while minority interests in the subsidiaries amounted to $13,160,000, and preferred stocks of subsidiaries were outstanding in the amount of $128,100,000. Parent company preferred stock, a 6% cumulative issue, $50 par value, 606,359 shares outstanding, preceded the 8,574,677 shares of common stock.

The new financing currently being undertaken will leave the common stock unaffected, but will increase the parent company funded debt to $70,000,000, eliminating the principal intermediary holding company, North American Edison Co. Preferred stock of the parent company will also be increased by $35,000,000, but interest and dividends on an over-all basis will be reduced by approximately $1,000,000 through the redemption of higher interest bearing securities.

For many years North American paid stock dividends at the rate of 10% annually in lieu of cash. Its contention was that this method eliminated the necessity of raising additional funds by issuing rights to buy stock; that it enabled the stockholder to maintain his proportionate equity in the company without putting up cash, or to turn his stock dividends into liquid funds simply by selling them as received. Since 1934 the stock dividends have been discontinued and cash payments have been made instead. The current rate of $1.20 annually is somewhat lower than total payments in 1936 and 1937, but the strong financial position of the company would permit more generous payments in the future when and if earnings show a sufficiently definite uptrend.

Selling at just about fifteen times earnings, to yield 5% at the present dividend rate, North American common stock is one of the sounder and more attractive utility equities. A sudden multiplication of earning power is not to be expected, nor on the other hand need the owner fear a drastic blow to profits. Even at the worst of the last depression earnings were not far below the current dividend. There is room for progress in North American territory and its management has shown itself capable of building on such opportunities. With system electric output setting new records in the last two months of 1938, the pickup in industrial and commercial sales certain to accompany improving general business should quickly revive earnings at least to the mark set in 1937, if not to a higher level.

Political Pressure on Chain Stores Eases

(Continued from page 497)

on chain systems with the smallest profits margins, notably the grocery chains. Yet it is worth noting that Safeway Stores is one of the chains in which union organization of most workers has become a fact during the past eighteen months, and that this did not prevent radical improvement in earnings during the past year.

Comparing most recent available earnings figures with those of 1929, the best long-term performance in the chain grocery field has been that of First National Stores, a well managed company operating in the politically - conservative New England states. Profit for the fiscal year ended April 2, 1938, was $2,705,000, against $2,904,000 in 1929. Safeway's net of $4,206,000 last year compares with $6,124,000 in 1929. Kroger's estimated net of around $3,400,000 for 1938 compares with $5,827,000 in 1929. Over the past decade the smallest annual dividend paid by Kroger has been $1 and the largest $1.90; the smallest annual Safeway cash dividend has been $1.50 and the largest $5; and the smallest First National payment has been $1.50, which was paid in 1928 and 1929, and highest has been $3.50 paid in 1936. All three of these stocks are reasonably priced in relation to prospective 1939 dividends.

Among other types of chain merchandising companies, comparing the present position with that of 1929, the stand-out performers have been G. C. Murphy, a 5 cents-$1 variety chain; J. C. Penney, and Montgomery Ward.

Sales of the Murphy chain last year were $42,189,000, only a trifle under the 1937 peak and comparing with $15,726,000 in 1929. Profit in 1937 was $3,007,000 against $897,169 in 1929. Profit margin in 1937 was approximately 7 per cent of dollar sales, against 5.7 per cent in 1929.

Penney sales in 1937 were about 36% larger than in 1929, with profit margin virtually identical with that of 1929. Montgomery Ward sales in its peak year 1937 were 55% higher than in 1929, with profit margin only .8 of 1% lower than in 1929 and since improved over 1929. In contrast to Ward, the Sears, Roebuck sales total in 1937 was about 30% higher than in 1929 but profit margin was 5.7% against 7.2% in 1929. W. T. Grant has had a large gain in sales since 1929 but with a rather sharp decline in profit margin. The Kress chain also shows a considerably reduced profit margin on substantially increased sales, while S. S. Kresge has failed to better 1929 sales, with earnings more than 40% under 1929.

In all-around stability, if one wants it in a stock, Woolworth is almost in a class by itself. Under normal conditions, as are likely in 1939, sales will closely approximate those of 1929 and so will net income, while the dividend has been and will be $2.40 a year regardless of what happens in Europe this spring and regardless of who is elected President in 1940.

Answers to Inquiries

(Continued from page 512)

fore, even though dividends may not be immediately forthcoming, we are counselling retention of your holdings on a price basis.

L. C. Smith & Corona Typewriters, Inc.

Two years ago, I bought 125 shares of Smith & Corona at 35¼ which I now hold. I felt that this stock was considerably underpriced last year and looked for substantial appreciation with business expansion. Do you suppose that the anticipated gains will be made this year?— E. B., Washington, D. C.

The common shares of L. C. Smith & Corona Typewriters, Inc., have more income appeal than price appreciation possibilities. At present prices the common shares afford you with a yield of about 6.5%. In view of the strong financial position —as of December 31, 1938, total current assets compared with total current liabilities in the ratio of approximately 3½ to 1—continuation of this high yield is anticipated. Re-

cently, the company brought out a new low-priced portable typewriter which has met with good success. As yet, however, its performance has not been fully felt in income reports. For the quarter ended December 31, 1938, a profit of 69 cents per common share was recorded against a profit of 65 cents a share in the like interval of 1937. It is interesting to note, moreover, that the profit was registered after a sharp loss in the September quarter. This is indicative of the better sales currently being enjoyed by the company, as well as a measure of the profits to be obtained from the new portable. Operations have recently been stepped up and some of the company's factories are working overtime. Much depends, of course, upon the extent of the industrial recovery currently in progress. At this writing, an optimistic attitude may be taken toward sustained recovery. As Smith-Corona sales are directly connected with consumer purchasing power, it is only logical to assume that they will coincide with better business activity. While the common shares are not entirely devoid of appreciation possibilities, their main attraction still lies in their income possibilities. It is therefore deemed advisable to hold your securities for this yield and in view of a general securities recovery.

Westvaco Chlorine Products Corp.

What is your appraisal of Westvaco Chlorine, common, for income and price appreciation? I hold 200 shares at 57, but understand 1938 earnings are close to 1937 levels —a development counter to the trend of chemical company earnings generally. Does this augur well for the prospects of my company over the coming months?—T. R., Chicago, Ill.

Well sustained earnings throughout 1938 for Westvaco Chlorine Products were made possible by a working agreement with Union Carbide. Under this contract, Westvaco sells a large amount of chlorine to Union Carbide. The introduction of a new phosphate product, which found particular favor with the soap industry, also had quite a bit to do with the stability of profits. As yet, of course, full 1938 results are not known. Our assumption is based upon the nine months report which showed a profit of $1.02 per share, as against $1.21 per share in the like months of 1938. It is anticipated that demand from Union Carbide will continue active and that sales for caustic soda and the new phosphate product will increase as business recovery continues. Not only does this have a bearing upon last year's results, but we believe that the betterment will continue well into 1939 and enable the company to maintain its dividend of $1 a share on the common issue. Other than the two commodities mentioned above, Westvaco produces chlorine, carbon tetrachloride and related products for the rayon and rubber goods industries, as well as petroleum refining. These products are used in numerous chemical processes, in the treatment of drinking water and sewage, and as a bleaching agent. Given any continued improvement in the general business picture—as seems probable at this writing—we are fully aware that earnings of Westvaco can show an improvement even from present good levels. At present depressed prices, the shares afford the holder with an excellent return.

International Paper & Power Co.

(*Continued from page* 501)

Current assets of International Hydro as of December 31, 1937, were $22,585,000 including $9,957,000 cash, against current liabilities of $14,304,000.

Here are at least a few tangibles which will enter into price making, and a value must be set, for International Paper and Power has announced its intention of completely divesting itself of utility interests and will shortly place its holdings of International Hydro-Electric in a liquidating trust whose members will be given from two to four years to dispose of the holdings under the supervision of the S E C.

A stockholder in International Paper and Power is currently not affected by this decision, although ultimately the sale of holdings which are not a source of earnings may redound considerably to his benefit. Particularly is this prospect brightened as the skies begin to clear for the utilities and the outlook for a favorable disposition of International Hydro improves proportionately.

Despite the simplification in 1937, the capital structure of International Paper & Power is complicated because of the assumed or guaranteed obligations of its various subsidiaries. The funded debt including the subsidiary obligations totals $79,738,085. After this comes 924,996 shares of $5 preferred, 1,822,433 shares of common, and 1,347,749 warrants to subscribe (until 1942) for the common at $25 a share.

International Paper & Power owns Canadian International Paper which by itself and through subsidiaries manufactures and sells newsprint and pulp. Southern Kraft Corp., owned by International Paper & Power, owns a number of kraft paper and board mills and represents that end of the industry. There are also rayon pulp mills, wall paper plants, mines, a railroad, steamers, tugs, truck lines, etc., 31 subsidiaries altogether. Nearly all types of paper are manufactured including tissues, envelopes for the U. S. Postoffice, fine paper, and several trade-marked brands.

After the favorable year 1937 when earnings totaled $9,135,000, equal to $2.47 on the common, the depressed level of business in the first nine months of 1938 resulted in a deficit of $688,000, most of the loss being incurred in the second quarter. Full year results are not available but it is believed that December was the best month of the year with net approximating $200,000. Full year estimates indicate only a small loss.

Taking into consideration the higher price for newsprint and assuming that 1939 is a normal business year, earnings comparable to or exceeding 1937 are a reasonable expectation. Volume is perhaps a more important factor than price for with heavy plant investments and extensive machinery, operating profit ratios rise with increased production. The 5% preferred will have accumulated back dividends of $8.75 as of April 1, 1939, and has a good chance of again being placed on a dividend basis. It is convertible at any time into 2½ shares of common and is callable at 105. As a speculative preferred with excellent potentialities it seems currently underpriced at 42. The common, while speculative, has considerable leverage, and should the company attain the earning power of which it is capable, the common can be expected to show ample appreciation.

Leverage may be likened to a group of securities strung together in order of their seniority in much the same manner as children join hands to play crack-the-whip. The longer the line the higher the leverage, and International Paper's line is very long. A moderate improvement in corporate earnings produces scarcely a ripple among the bonds for their charges are fixed. But after interest on the funded debt is covered continued improvement is reflected very markedly on the junior securities. The $5 preferred and the common are down at the end of the line where the crack of the whip can be very exhilarating indeed, though the fact that the preferred is convertible and the existence of the warrants dilutes some of the leverage on the common. As a long-term speculation either security has exceptional promise.

International Paper & Power began as a paper manufacturer, expanded into power production in the 1920s in an attempt to attain electric power earnings that never materialized—an experiment that was unprofitable but that has been written off. Now that the transition has been completed and the company is back in its own proper sphere it has begun to find itself, under vigorous and able management. The new revived International Paper & Power Co. may be said to have come of age.

Higher Commodity Prices Not Essential to Industrial Profits

(*Continued from page* 483)

systems, tariffs and trade agreements and treaties have also been prominent factors. Lately the threat of war has been injected into the commodity price structure, and from every indication promises to continue to be a prime influence.

Of more direct significance perhaps is the fact that supplies of many basic commodities have been greatly enlarged during the past twenty years, so much so in fact that were productive capacity to be fully utilized output would be substantially more than world demand could absorb. This is particularly true of agricultural commodities such as wheat, corn and cotton. Many countries which formerly raised only minor quantities of these products have in furtherance of national self sufficiency and foreign trade have substantially increased their output.

Technological progress and new labor-saving devices have lowered the cost of production. Science and research have developed a myriad of new uses for many raw materials, uses which have resulted in bringing various commodities into active competition with each other. The rapid progress which has been made in the development of synthetic materials has fostered inter-commodity competition. A striking example of this trend is afforded by silk, the natural product, and rayon the synthetic material. The rapid growth in the production and application of rayon has exerted irresistable pressure on silk prices. What has happened to silk has happened to other commodities and has been reflected in the whole commodity price structure.

Probably one of the most subtle, yet quite apparent, influences on

commodity prices has been the cycle of currency devaluation throughout the world. Since the World War practically every major nation has devalued its currency. To say the least, results have been mischievous. Deliberate devaluation of its currency on the part of a nation disturbs the international competitive balance and exerts irresistable pressure on the international price level. Devaluation by a nation of its currency is in effect a reduction in the price of exports on the one hand, and a reduction of internal prices of imports, making it more difficult for other nations to sell it their own goods. To correct this disadvantage, other nations also devalued, and soon the whole vicious cycle was set in motion. In terms of commodities today an ounce of gold will buy 2.3 times what it would in 1926. If currencies had remained unchanged, gold would buy only 1.27 times as much as in 1926.

The disturbed political situation abroad, with all its many ramifications, has undoubtedly contributed to the decline in commodity prices. The prestige of England in world trade and politics has undoubtedly been weakened and in recent months the steady impairment in the internal economic position of Great Britain accompanied by the prospect of increased taxes to finance a huge rearmament program has in part, at least, accounted for the steady decline in sterling. It is generally suspected that the Exchange Equalization Account has stood aside, permitting sterling to decline to a point sufficient to obtain a considerable advantage for English exporters. Recently however, steps have been taken to stabilize the pound and defend it against bear selling. But the decline in sterling has brought pressure on the international commodity price structure, reflected in lower prices for copper, lead, etc., while lower prices for such important English export commodities as rubber and tin were probably prevented from declining only by the existence of artificial control measures. In these British interests play an important role although it must be realized that the former domination of commodity prices exercised by London has markedly declined.

Another threat to the price structure of commodities is the barter system which has been introduced by Germany. For the dual purpose of disposing of its manufactured products and obtaining sufficient foreign exchange with which to pay for imports of cotton, oil, food and other products which are sorely needed, Germany proposes to barter for huge quantities of foreign products and raw materials. Then whatever part of these products is not needed by Germany is virtually dumped on world markets and for whatever price they will bring. If Germany is successful in expanding barter arrangements on a wide scale, another serious burden will be imposed on world prices.

Separately the impact of these various factors upon the movement of commodity prices has not always been distinguishable. Collectively, they have been responsible for the long term downward trend of commodity prices and collectively, they will continue to be a potent influence. Obviously they are all a part of fundamental supply and demand, even though it may seem difficult to properly evaluate them in terms of production and consumption.

Looking, however, at the current supply-demand relationship in a number of basic commodities which normally are consumed in large quantities throughout the world it is difficult to escape the conclusion that stocks of raw materials, either existing or potential, are substantially in excess of probable near-term consumption. Certainly this is true in the case of such major agricultural commodities as wheat, corn and cotton. It is true of sugar and coffee and it is probably true of wool and silk. Supplies of such industrial commodities as copper, lead, zinc, tin and rubber are more than adequate to meet the needs of indicated demand and while there has been considerable improvement in the statistical position of these commodities in recent months, this has been made possible only by drastically curtailed production, accompanied by some revival in demand from depression levels. In the case of copper, tin and rubber the attainment of a better balance between supply and demand has been aided materially by the operations of a copper cartel, a buffer pool for tin and a regulation committee for rubber. These, however, are merely names given to co-operate efforts to restrict production.

That these cartels, buffer pools and regulation committees, however, are less interested in merely raising prices than they are in maintaining a price level sufficient to return a fair profit to producers has been evident in their willingness to lighten production restrictions whenever demand promised to absorb larger supplies. There are of course a number of industrial commodities such as aluminum, nickel and molybdenum which, owing to the fact that their production is closely controlled by a few large producers, show very little variation in price from month to month. Yet these are benevolent monopolies and prices over the longer term have shown a steady downward trend.

Drawing all of these factors together in a single conclusion, the basis for a marked and sustained rise in commodity prices simply does not exist. Selected individual commodities may score important price gains this year or the outbreak of a European war might create an abnormal demand for those commodities comprising the sinews of war, but otherwise business and industry may count itself fortunate if it is favored by a stable or only slightly lower level of raw material prices.

The Trend of Events

(*Continued from page* 469)

and Southern sales to the Government is concerned there is satisfaction to be gained from the fact that the $78,600,000 price was close to the figure asked by the utility, despite the fact that negiotiations were conducted beneath the forbidding shadow of potential Government competition to the point of destruction.

There is further comfort in the thought that the election of last November for the first time set fairly clear limits to the New Deal power policy and program. The most important uncertainty was not existing Federal policy, but future Federal policy; not existing Federal power projects but possible future projects. The private utilities can adjust themselves to the rules of the game as they now are, without insuperable difficulty. The center of political gravity having shifted to middle-of-the-road elements in Congress, we can reasonably expect that there will be no expansion of the present Federal power program for at least a long time to come, and no more appropriations that can be used to subsidize municipal power ventures.

Maybe the sun can never shine with full brilliance on any industry subject to public regulation, but for the utilities some of the worst clouds have moved away. As shown by recent advance of utility securities, especially senior issues, investors in this industry are beginning to poke their heads out of the storm cellar.

How to Get an 80-Billion U. S. Income

(*Continued from page* 476)

"The national economy must be released from the strangle-hold of restrictive regulations and the suppleness, which is indispensable to its free movement, must be restored."

How does that apply to us? Well, during the past six years we have had more Government planning, regulation and restriction than ever before—coincident with less private investment and more unemployment than ever before.

But whereas a new British cabinet or a new French cabinet can change national economic policy virtually over night, no such *prompt* adjustments are possible under our system of government. We had only a partial change of government in the November election. Major revision of unwise national economic policy can not be expected before early 1941 at best—and then only if we are very lucky in the choice of public officials the electorate happens to make. Meanwhile our main hope can only be a gradual revival of investment confidence growing out of the *direction* in which the political tide appears to be moving rather more than out of such net change as we have had in the political status to date.

The task is a truly formidable one and no pat solution can be pulled out of anybody's hat. Because of the increase in supply of available labor since 1929 on the one hand, and the increased diversion of national income to non-productive government purposes on the other hand, a recovery of 1929 production and national income will not take us out of the woods. For instance, let us dream for a moment that in 1942 we shall have a national income of $80,000,000,000, equal to 1929, and with a cost of living no higher than 1929. Projecting Mr. Roosevelt's present fiscal ideas, that level of national income would add upward of $3,000,000,000 a year to the Federal Government's tax revenues. If that is the sole addition to the present tax revenues of all forms of government, the total tax bill in 1942 would be approximately $15,300,000,000. Therefore, projecting population growth, the hypothetical 1942 national income of $80,000,000,000, after deducting taxes, would be $495 per capita against $588 per capita on the same basis in 1929, or a deficiency of nearly 16%. In other words, to match the 1929 per capita income, less taxes, our 1942 national income would have to be around $92,000,000,000, or more than one-third larger than we had in 1938. And the longer we take for a full recovery in production, with further growth of population, the higher will total income have to go to match the 1929 per capita performance.

A good politico-economic platform for the period ahead of us would read something like the following:

"We favor a national income equal to that of 1929. We can get it only by activation of private initiative. To that end the guiding principle of Government policy should be to encourage in every possible way revival of private investment in productive undertakings.

"During the period in which we are attempting to attain the 1929 per capita income and until it is attained, we advocate the following policies:

"First, no extension of Government regulation of business and finance; no extension of paternalistic social services; no increase of the $9,000,000,000 Federal budget, barring emergency of war; no new forms of taxation; no increase in present tax rates; no additional public projects which compete with private enterprise.

"Second, repeal the capital gains tax with the specific aims of encouraging the venture spirit in pri-

vate investment; eliminate the last vestige of the undistributed earnings tax.

"Third, revise the Wagner Act so that it will be fair to both labor and capital, bar coercion from any source and truly promote industrial peace.

"Fourth, use the full influence of Government to induce all major industries and all major labor unions to agree upon fair contracts, covering wages and working conditions, which shall remain in force until the per capita income and purchasing power of 1929 are equalled. If this can not be done, attempt to stabilize wages and reasonable hours of work in all major industries for a two-year contract period."

Of course, the writer knows that politicians don't get elected to office on platforms like this, and that politico-economic planning in a Democracy can never be so simplified. But until a national policy squaring with at least a goodly portion of this platform comes into being—whether through intelligent leadership or force of circumstances—we are not going to get a flow of private investment sufficient to restore the per capita business activity of 1929.

As I See It!

(*Continued from page* 471)

Chamberlain, the "ally" of France, is occupied to the same end (witness the almost daily exchange of compliments), hoping against hope that as a reward Mussolini will withdraw from Spain and give England a chance to reconstruct her lifeline through the Mediterranean and salvage her Empire.

The appearance of German and Italian troops on the French borders, now that Barcelona has fallen, has prepared the French for some hard bargaining and a demand on them for sacrifices they do not care to make. And Hitler's statement that he would support Italian demands will be enough to produce tangible results even though the French doubt greatly that Hitler would go to war for Italy. Events rather point to a Franco-Italian face-saving compromise than war.

England

The position of England may be improving from a rearmament standpoint but not diplomatically, and that is important in the Far East. Already there is the definite possibility that she will lose India; and it is said that with three gunboats Japan could capture Australia in the morning and on the way back take the Dutch East Indies. It is pointed out that the loss of face that England suffered at Munich brought about the fall of Canton—that for seventeen months the Japanese made no effort to stop the huge amount of munitions entering Canton—munitions which killed thousands of their soldiers. But with the lowering of the British prestige after Munich, the Japs moved up the river and with only 30,000 troops took Canton without firing a shot, definitely shutting off supplies to China.

And now we will witness one of the greatest battles of all—the bargaining between England and Germany for the African colonies. Although Hitler did not recognize their value in "Mein Kampf," he is thoroughly aware of the importance of these tropical raw materials, such as, rubber, cocoa, coffee, cotton, etc., in his plan to develop a self-contained and rounded empire. Because of his great need of funds, it would not surprise me to have Hitler demand a huge sum to compensate Germany for the revenue derived from these colonies by Britain and France since they took them over. I do not believe there will be any mercy shown if the Nazis feel they can have their way.

South America

Fortunately, we in the United States are still observers and not participants in this battle of the century. But the potentialities of being drawn in are at our back door. As Mussolini reminded us the other day, the rest of this hemisphere from the Rio Grande to Cape Horn is in a vulnerable position. Today the South Americans have the greatest cause for anxiety because if Hitler ever gets economic and political control over their countries and secures his raw materials through conquest else-

DIVIDENDS RECENTLY DECLARED

Company	Rate	Period	Stock of Record	Payable
American Tobacco B	5.00	Q	2/10	3/1
Armstrong Cork	0.25	—	2/8	3/1
Belding Hemingway	0.17½	—	1/30	2/15
Byron Jackson	0.25	—	1/31	2/15
Chain Belt	0.20	—	2/1	2/15
Chile Copper	0.50	—	2/10	2/24
Consolidated Edison	0.50	—	2/10	3/15
Dow Chemical	0.75	—	2/1	2/15
Duplan Silk	1.00	Sa	2/1	2/15
General Foods	2.00	Q	1/30	2/15
Great Atlantic & Pacific Tea	3.00	—	2/3	2/16
Ingersoll Rand	1.00	—	2/6	3/1
International Harvester Pfd	7.00	Q	2/4	3/1
Kayser (Julius) & Co.	0.40	—	2/1	2/15
Kroger Grocery & Baking	1.60	Q	2/3	3/1
Life Savers Corp	1.60	Q	2/4	3/1
Loew's Inc., Pfd.	6.50	Q	1/31	2/15
Macy (R. H.)	2.00	Q	2/10	3/1
Manhattan Shirt	0.80	Q	2/10	3/1
Minneapolis Honeywell Regulator	0.50	—	2/9	2/20
National Power & Light	0.60	Q	1/31	3/1
Owens-Illinois Glass	0.50	—	1/30	2/15
Phillips Petroleum	2.00	Q	2/3	3/1
Sears Roebuck & Co.	3.00	Q	2/10	3/10
Sherwin Williams	2.00	Q	1/31	2/15
Tampa Electric	2.24	Q	1/31	2/15
United Engineering & Foundry	0.50	—	2/3	2/14
United States Steel Pfd.	7.00	Q	2/3	2/20
Westvaco Chlorine Products	1.00	Q	2/10	3/1
White (S. S.) Dental Manufacturing	0.60	Q	1/30	2/14
Woolworth (F. W.)	2.40	Q	2/10	3/1

Q—Quarterly. Sa—Semi-annually.
All declarations on common stocks unless otherwise noted.

where, he will be in a position to make any demand on them that suits his whim or policy of the moment.

On his thesis that Germans are the elect, and the only people fit to rule, with the rest of the world suited only to be their slaves, we have a pretty good idea of what can be expected from a Nazi controlled world.

Are we going to continue to "bicker" among ourselves and play politics—or are we going to do something about it?

Who Will Make the Money in Shipbuilding?

(Continued from page 503)

tions. No earnings record is available as the parent company issues a consolidated earnings statement.

Todd Shipyards, listed on the Curb, is best known for its ship repair work and its strategically located yards in the New York area; Mobile, Alabama; New Orleans, Galveston, and Seattle. Large government establishments in these ports offer a continuing prospect for business. Manufacturing subsidiaries, producing marine and industrial oil and pulverized fuel burners, add materially to the satisfactory profits which are shown annually. Dividend record is good and last year's payments totalled $5.50 per share. The 206,609 shares of common, preceded by a small purchase money obligation, are selling around 75, offering a generous yield.

Great Lakes shipbuilding does not now share the optimistic outlook for seaboard construction. Passenger traffic has declined, and freight tonnage carried in 1938 utilized only about 35% of available capacity. Four modern ore vessels were delivered early in 1938, but until higher operating rates for the steel industry are in effect, there will be little stimulus to new construction or modernization of present equipment. American Shipbuilding, the principal factor in Great Lakes ship construction and repair, has reduced the number of its yards in lake ports in an endeavor to consolidate construction only at the Lorain, Ohio, plant and fewer repair yards elsewhere. This company's 126,263 shares of common stock, its present capitalization, has long enjoyed investment preference in the Lakes region because of its strong position in the industry and an excellent dividend record. The current annual rate of $2 has been maintained since 1932. Earnings shot up sharply between June, 1936, and June, 1937, but have declined since then with the full year's results for 1938 estimated to cover the present dividend rate. The business future for American Shipbuilding is closely associated with the movement of bulk cargo on the Great Lakes or until such time as a greater cargo movement between ocean and lake ports takes place.

For Profit and Income

(Continued from page 505)

ciation: Commonwealth & Southern, and United Corporation. * * * The T V A decision while adverse is not an unmitigated defeat for utilities. The administration's face is saved, permitting an end of hostilities. Had the government lost the administration might have been stung into a continuation of antagonism in which case it would have been an empty victory for utilities. * * * Glenn L. Martin Co.'s plant is operating 16 hours a day, 5 days a week. The president states that 1,200 planes can be turned out annually.

Chemicals in Strong Position

(Continued from page 491)

rubber industry, competitive conditions forestalled a better price on 1939 first half contracts; the present figure is close to cost of production. Among the newer chemicals, the downward price trend was best exemplified by reductions for ethyl cellulose, which is finding expanding use in the manufacture of plastics, and vanillin, a synthetic vanilla. Sodium cyanide, sorbitol, manitol and a number of others are also examples.

That these policies of constant research and continuous price reduction represent the soundest sort of economics is indicated by a past and current rate of growth among the leading chemical makers paralleled in few other fields. The industry, perhaps more than any other, can be counted upon to share more than equitably in any advance that is in store for business as a whole. By and large, the principal companies are in good shape financially and dividend records generally suggest the continued distribution of a fair share of profits. Despite the high price-earnings ratios at which the chemical shares typically sell, and the low yields consequently available, the better grade equities of the group have much appeal from an investment standpoint.

Forthcoming Dividend Meetings

Company	Time	Date
Allied Stores 5% Pfd.*	10:00	Feb. 21
Amer. Bank Note Com. & Pfd.*	12:30	Feb. 23
Amer. Home Products	11:30	Feb. 23
Amer. Power & Light $6 & $5 Pfds*	3:00	Feb. 23
Amer. Sumatra Tobacco	3:00	Feb. 17
Amer. Telephone & Telegraph	12:00	Feb. 15
Arnold Constable*	4:00	Feb. 23
Beech-Nut Packing*	——	Feb. 16
Beneficial Industrial Loan	1:30	Feb. 15
Chesapeake & Ohio Com. & 4% Pfd.	2:30	Feb. 21
Cluett Peabody Com. & Pfd	2:00	Feb. 23
Colt's Patent Fire Arms	2:00	Feb. 16
Columbian Carbon	10:30	Feb. 14
Commercial Credit Com. & 4¼% Pfd.	11:00	Feb. 23
Com'l Invest. Trust Com. & Conv. Pfd	4:00	Feb. 23
Electric Storage Battery Com. & Pfd.	3:00	Feb. 17
General Cigar	4:00	Feb. 15
General Railway Signal Pfd	11:00	Feb. 23
Gillette Safety Razor Com. & $5 Pfd.*	2:00	Feb. 23
Great Western Sugar Com. & Pfd.*	10:00	Feb. 23
Helme (G. W.) Com. & Pfd.	11:00	Feb. 23
Hercules Powder	10:00	Feb. 23
Humble Oil & Refining	11:00	Feb. 20
International Harvester	2:00	Feb. 16
International Salt	2:00	Feb. 15
Kennecott Copper	11:45	Feb. 21
Lake Shore Mines*	——	Feb. 14
Liquid Carbonic	11:00	Feb. 23
Lone Star Cement	9:00	Feb. 15
Lorillard (P.) & Co. Com. & Pfd.*	2:30	Feb. 23
Magma Copper*	2:00	Feb. 21
Mathieson Alkali Com. & Pfd.*	9:45	Feb. 23
Mesta Machine	11:00	Feb. 20
Midvale Co.[4]	10:45	Feb. 23
Monsanto Chemical	10:00	Feb. 15
Montgomery Ward Com. & Pfd.	10:00	Feb. 24
National Dairy Products Com. & Pfds	10:30	Feb. 23
Niles-Bement-Pond*	——	Feb. 20
North Amer. Co. Com. & 6% Pfd.*	11:00	Feb. 24
Paramount Pictures 1st & 2nd Pfds	3:30	Feb. 23
Parke Davis & Co.*	2:00	Feb. 23
Penick & Ford, Ltd.	3:30	Feb. 21
Phelps Dodge Corp.*	2:00	Feb. 15
Quaker Oats Com. & 6% Pfd	10:00	Feb. 17
Radio Corp. Pfds.*	1:00	Feb. 17
Remington Rand Com. & $4.50 Pfd.*	9:15	Feb. 21
Seaboard Oil of Delaware*	11:30	Feb. 15
So. Porto Rico Sugar Com. & 8% Pfd.*	10:45	Feb. 23
Sutherland Paper*	2:00	Feb. 20
Swift & Co.	——	Feb. 16
Thatcher Manufacturing*	9:30	Feb. 23
Tide Water Assoc. Oil $4.50 Pfd.*	10:30	Feb. 23
Union Pacific Com. & Pfd	11:00	Feb. 23
Weston Electrical Instru. Class A*	3:00	Feb. 16
Youngstown Sheet & Tube 5½% Pfd.*	——	Feb. 14

* Approximate date.

All meetings on common stocks unless otherwise noted.

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